



# Joint ventures in agriculture: Lessons from land reform projects in South Africa

Edward Lahiff, Nerhene Davis and Tshililo Manenzhe



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## About the authors

**Edward Lahiff** lectures in International Development at University College Cork, Ireland. He spent ten years in southern Africa working first with a rural non-governmental organisation and later as a senior lecturer in Land and Agrarian Studies at the University of the Western Cape, South Africa. He has published widely on land reform, rural livelihoods and natural resources in southern Africa. His current research interests include rural development and agriculture-nutrition linkages in Ethiopia and Tanzania.

**Nerhene Davis** is a lecturer in the Department of Geography, Geo-informatics and Meteorology at the University of Pretoria, South Africa. She is also a doctoral student at the University of the Western Cape, South Africa. Her PhD thesis focuses on the Moletele Restitution initiative to explore the range of interests, motivations and expectations of social actors involved in joint venture initiatives, articulated as strategic partnership arrangements that are currently being introduced in the context of the South African Land reform programme.

**Tshililo Justice Manenzhe** is a PhD candidate at the Institute for Poverty, Land and Agrarian Studies, University of the Western Cape, South Africa, focusing on strategic partnerships in Limpopo province. He previously worked as a researcher at the Institute for Poverty, Land and Agrarian Studies and as a field worker at Nkuzi Development Association, a land-rights non-governmental organisation based in Limpopo, South Africa. He holds a BA from the University of Venda and an MPhil in Land and Agrarian Studies from the University of the Western Cape.



## Acronyms

ANC	African National Congress
ART	African Realty Trust
BEE	Black Economic Empowerment
CASE	Community Agency for Social Enquiry
CIRAD	French agricultural research centre for international development ( <i>Centre de Coopération Internationale en Recherche Agronomique pour le Développement</i> )
CPA	Communal Property Association
CPP	Community-Private Partnership
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
FAO	Food and Agriculture Organization of the United Nations
GFC	Golden Frontier Citrus
IDC	Industrial Development Corporation
IFAD	International Fund for Agricultural Development
IIED	International Institute for Environment and Development
MCPA	Moletele Communal Property Association
PLAAS	Programme for Land and Agrarian Studies/Institute for Poverty, Land and Agrarian Studies
RDP	Reconstruction and Development Programme
SAFE	South African Fruit Exporters
SAFM	South African Farm Management
SFM	Strategic Farm Management
USD	United States Dollar
ZAR	South Africa Rand

## **Executive summary**

Recent years have witnessed renewed interest in 'inclusive business models' in agriculture, as part of wider discussions about growing agricultural investment in lower income countries. Inclusive models aim to include poor people into value chains as producers, employees or consumers, in ways that are both equitable and sustainable. Joint ventures between companies and local communities have received considerable attention in these debates.

This report presents findings from research on joint ventures in South Africa's agricultural sector. The South African experience presents major specificities linked to its history and its recent land reform programme, within which experience with joint ventures has emerged. But it also provides a case where joint ventures have been implemented for some time, and some of the lessons learned may prove valuable for different contexts where discussions about joint ventures are more recent.

Under South Africa's land reform programme, since 1994, previously dispossessed communities have had large areas of agricultural land restored to them and, under pressure from the state, have entered into a range of joint enterprises with commercial partners. Early evidence suggests that these enterprises face multiple difficulties, and the report provides a cautionary tale for international discussions about inclusive business models.

This report is based on two case studies of land reform in Limpopo province, Levubu and Moletele. In these sites, large areas of high-value irrigated land have been restored to relatively poor communities. In order to maintain the productivity of commercial farming enterprises, and to maximise long-term benefits for their members, these communities have entered into contractual arrangements with so-called 'strategic partners', most of which take the form of joint ventures. While the state funds the land transfer and provides certain start-up grants, the strategic partner is expected to provide technical and managerial expertise and arrange access to commercial sources of credit. In return, the strategic partners expect to benefit from a share of profits, a management fee and opportunities for additional upstream and downstream activities. Communities stand to benefit from land rentals and a share of operating profits, as well as jobs and training opportunities for their members.

The findings of the Levubu and Moletele case studies show that joint ventures have struggled to get off the ground and some have already collapsed with major losses. Apart from some limited employment opportunities, few if any benefits have yet reached ordinary community members. In some cases, employment and productivity on the farms has declined severely. Overly complex deals, ineffective support from the responsible state agencies and lack of capacity on the part of commercial partners stand out as the main factors contributing to the failure of the joint venture



model in the South African context. Alternative policies will need to address all these areas, which places responsibilities on state agencies, communities and their commercial partners to develop more plausible models that adequately address both equity and sustainability. Key to this will be the choice of commercial partners, who should ideally have sufficient resources to fund a venture throughout a prolonged start-phase and a demonstrable commitment to an inclusive business approach. For the communities, the key challenge will be to ensure a flow of material benefits to their members in both the short and the longer terms, while developing capacity and a clear strategy for the eventual assumption of full control of farming operations.

Over time, a variety of alternatives to joint ventures has emerged on the land, ranging from direct use by community members to management contracts and lease agreements with outsiders, with mixed results. Two relatively successful cases are identified where communities have entered into partnerships with experienced individuals who act as managers and mentors. While this puts the communities in a relatively strong position, at least on paper, they continue to face major difficulties in accessing working capital. Another model that has more recently emerged at Moletele is the so-called Community-Private Partnership, which is effectively a standard lease agreement with an agri-business company, with the added promise of employment and training opportunities for community members. This differs from the former strategic partnership/joint venture model in that the operating company is controlled entirely by the commercial partner and the community does not receive a share of profits; it also releases the community from the requirement that it match the capital invested by partners under the joint venture model. While the Community-Private model appears to be less complex than a strategic partnership and less risky for the community, it is too early to say whether it is capable of delivering a sustainable stream of benefits to community members. Questions also remain regarding the long term development of the land and arrangements for the return of the farms to community control at the end of 20-year leases.

## 1. Introduction

Recent years have witnessed renewed interest in 'inclusive business models' in agriculture, as part of wider discussions about growing agricultural investment in lower income countries. Inclusive business models aim to include poor people into value chains as producers, employees or consumers, in ways that are both equitable and sustainable (UNDP, 2010: 3). Inclusive business models in the agricultural sector are widely seen as a means of providing access to capital, information and markets for smallholders and communities who may otherwise be marginalised from the economic mainstream and are therefore seen by many as an effective means of rural development. Such initiatives can see resource-poor producers and communities partnering with multi-national companies, large domestic companies, small or medium sized enterprise, or non-profit organisations. Joint ventures between companies and local communities have received considerable attention in recent debates about inclusive models in agriculture.

This report presents findings from research on joint ventures in South Africa's agricultural sector. The South African experience presents major specificities linked to its history and its recent land reform programme, within which experience with joint ventures has emerged. In contrast to other parts of the world, South Africa provides an example of communities that, as the result of a political transformation, have come into possession of large, valuable agricultural assets, to which they have secured freehold title but often lack the necessary management and financial resources, and are therefore in need of commercial partners. The commercial partners that have linked up with such communities are also atypical in that many are relatively small in scale and some are former owners of the land in question. In the partnerships, local communities are thrust into collective participation in new and complex enterprises, rather than building on familiar household-based activities. And the driving force behind the new ventures is the state, through policy, brokering and the provision of substantial capital; however, the state does not play an active part in the operation of the enterprises.

Despite these unique features, South Africa provides a case where 'strategic partnerships' between companies and local communities, including in the form of joint ventures, have been implemented for some time. Some of the lessons learned in this country may prove valuable for different contexts where discussions about partnerships in general, and joint ventures in particular, are more recent.

In South Africa, since the end of Apartheid in 1994, a wide range of state, community and private sector initiatives have aimed to redistribute wealth and extend social and economic opportunities to previously disadvantaged people of colour. One such policy is land reform, which aims to redistribute agricultural land among the wider population, restore ancestral lands to individuals and communities, and strengthen land rights more generally. The highly-developed nature of the commercial

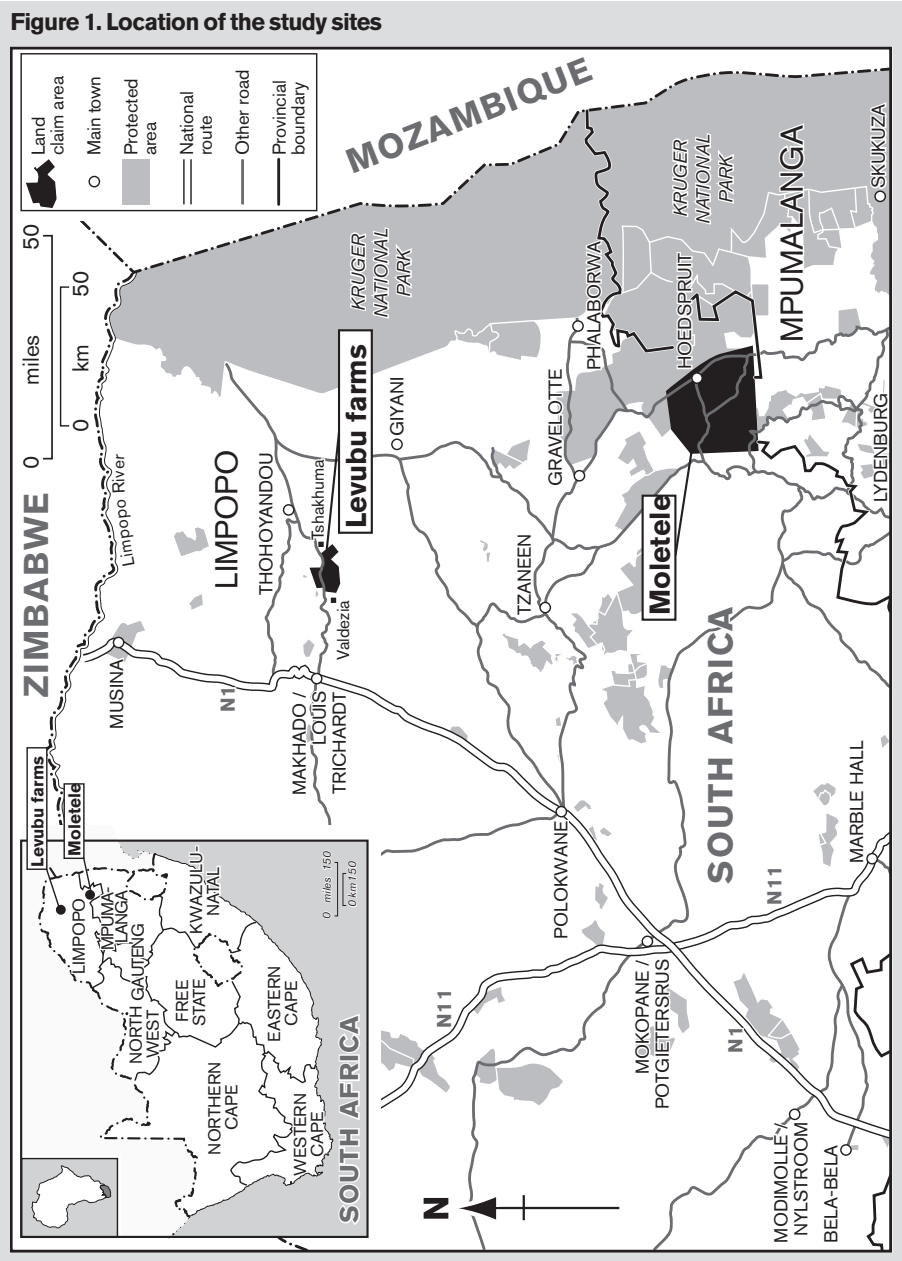
agricultural sector in South Africa provides opportunities for previously marginalised groups to engage in production of high-value commodities for domestic and international markets, but also presents major challenges in terms of capital, skills and competitiveness. It is in this context that a variety of 'strategic partnerships' have emerged between (largely poor) black landowning communities and (mostly white) partners from the large-scale commercial sector, many of which take the form of joint ventures.

This report examines two clusters of strategic partnerships from the sub-tropical fruit and nut zone in Limpopo province, in the north-east of South Africa, where land reform has led to the transfer of large areas of commercial farm land to previously-dispossessed communities over the past five years (see Figure 1). The Levubu and Moletele case studies reveal many of the difficulties of creating viable partnerships and delivering on the promises of land reform, but also show how ambitious plans have, over time, given way to more realistic expectations and a greater diversity of business models.

The report draws on ongoing fieldwork by all three authors in the study area dating back to the 1990s, but the evidence presented here is based mainly on research conducted at Levubu and Moletele during the period June-December 2010. During this time, face-to-face interviews and/or group discussions were conducted with most of the key players involved with the various enterprises under investigation, including community leaders, commercial partners, farm managers, workers, state officials (from national, provincial and local levels), 'ordinary' community members and other knowledgeable individuals.

For practical reasons, it was not possible to look at all the ventures at Levubu and Moletele in equal detail. For the purposes of this report, particular attention is given to one of the Levubu communities – Ravele – and, in the case of Moletele, to the strategic partnership known as New Dawn, although some relevant information on the other enterprises in these areas is also included.

In most cases the researchers were given access to company records, including accounts, minutes of meetings and business plans. Official records, setting out the areas of land and the financial details of the land reform settlements, were also accessed. While communication with community members was generally excellent, a number of difficulties were encountered in communicating with some of the commercial partners, either because the companies in question had collapsed, key individuals had left the area or, in a few cases, people were unwilling to participate in the study. As a result, this study is best seen as 'community perspectives on joint ventures in land reform,' rather than a fully-rounded study of business operations. A further limitation of the study is the absence of reliable information on some key issues, either because it was not recorded, people were unwilling to share it, or the accuracy was contested. Such issues included how certain monies paid over to community structures have been used, how certain state grants have been used, and the wider financial and business dealings of some of the commercial partners. Nonetheless, we believe this report presents a broadly accurate – if not always



comprehensive – account of what has happened over the past five years at Levubu and Moletele, which continues to be a sometimes chaotic and somewhat fraught land reform experiment. Where there are substantial information gaps, or confusion, these largely reflect the perspective of the community informants involved.

This report begins by setting out the context for these types of joint ventures, within the context of the South African land reform programme (Chapter 2). Particular attention is paid to the restitution dimension of land reform, which aims to return ancestral land – much of it now highly developed – to former owners, many of them large and relatively poor communities. The two case studies of Levubu and Moletele are then considered in turn (Chapters 3 and 4), looking at the land in question, the communities and other actors involved, the nature of the business partnerships that have been created and the success or otherwise of these partnerships to date. Chapter 5 presents a comparative analysis of these two cases, looking in some detail at the emerging business models, the benefits to the communities, links between agricultural production and other (upstream and downstream) commercial activities, the role of Communal Property Associations (CPAs) within the respective communities and, finally, the impact on workers and employment. Chapter 6 summarises the main findings of the study, situating the South African experience in the wider international context, and presents a number of policy recommendations.

## 2. Strategic partnerships in South Africa's land reform

Strategic partnerships in land reform in South Africa are part of a wider response to the challenge of empowering previously marginalised groups and transforming the racially-stratified economy inherited from the Apartheid era. In distinction to the way in which the term is used in the international business literature, the term 'strategic partnership' is used here (and widely in South Africa) to signify a joint venture or other form of collaboration between an established commercial firm and a new (or 'emerging') group of workers, shareholders, small farmers, entrepreneurs or community members with limited commercial experience and little or no access to finance or leading-edge markets. Such collaborations typically have social as well as economic objectives, including empowerment of workers, women or other previously disadvantaged groups, skills transfer, accelerated career paths and creation of trading opportunities for small and micro enterprises. This in turn forms part of the state's wider programme of broad-based Black Economic Empowerment (BEE) which is being implemented across the wider economy.

Land reform is an integral part of the democratisation of South Africa and transition from the race-based Apartheid system which prevailed until 1994. The need for radical reform of property rights has been acknowledged across the political spectrum, and features prominently in the Constitution of South Africa as well as a range of legislation and official policies. This is a direct response to the long history of settler-colonialism, accompanied by violent dispossession and exploitation of indigenous peoples that left South Africa with a highly unequal distribution of wealth and assets. By the end of the Apartheid era, approximately 86% of all agricultural land in the country was held by white people (who accounted for only 10.9% of the population) and was concentrated in the hands of approximately 60,000 owners (Lahiff, 2007: 1578).

In 1994, the new democratically-elected government, led by the African National Congress (ANC), pledged to transfer at least 30% of agricultural land to black people. Since then, the state has implemented a multifaceted programme of land reform that includes redistribution of land (whereby beneficiaries access grants to allow for purchase of land via the market), restitution (involving the return of ancestral lands to individuals or communities with a proven historical claim) and tenure reform (aimed at securing the property rights of people living within communal areas and on privately-owned commercial farms) (Department of Land Affairs, 1997). Despite some progress, and substantial budgetary allocations, there is a widespread perception that land reform is not meeting its objectives in terms of economic development, poverty alleviation or redress for past injustices, although intense debate rages around the reasons for such failures (Greenberg, 2010; Centre for Development and Enterprise, 2008).

Most public attention, both within the country and internationally, has focused on the means by which land is acquired from the existing white owners and the levels of compensation, if any, to be paid. Under the Constitution, the state has the power to expropriate land for land reform purposes and a duty to provide compensation that is 'just and equitable', taking into consideration factors such as the means by which the land was first acquired and levels of state subsidy accrued, as well as the current market value. In practice, the South African state has relied heavily on the system of 'willing seller, willing buyer', inspired by the World Bank's model of market-based land reform, largely eschewing expropriation in favour of voluntary transactions with compensation at prevailing market rates (Deininger, 2003; van den Brink *et al.*, 2006). By the end of September 2009, just 6.9% of the country's farmland (5.67 million hectares out of a total of approximately 82 million) had been transferred, to 1.78 million intended beneficiaries (Greenberg, 2010: 4).

Within land reform circles, two further issues have dominated debates: the quality of support provided (particularly by the state) to land reform beneficiaries, and the dynamics of groups (often very large) that acquire land as a collective. This applies equally to both the restitution and redistribution sub-programmes, especially in the early years when redistribution projects tended to involve large numbers of families. Various studies have, over the years, revealed that most land reform beneficiaries, or groups, are effectively left to fend for themselves once they have acquired land, and few receive much in the way of training, credit or extension services from either state or private service providers (Jacobs, 2003; Hall, 2007; Lahiff *et al.*, 2008; Aliber *et al.*, 2010). This can largely be attributed to poor planning and ineffectiveness among state agencies such as the national Department of Rural Development and Land Reform (formally the Department of Land Affairs) and provincial departments of agriculture, as well the inability of most beneficiaries to afford the private support services widely used by large-scale commercial farmers. This lack of post-settlement support is greatly compounded by the imposition by the state agencies of poorly designed or inappropriate farm plans (also referred to as business plans) that encourage production of high-value commodities for the market, regardless of the financial or technical resources of the resettled farmers concerned, and strongly discourage either the subdivision of land into family plots or the production of staple foods for direct consumption (Lahiff, 2007: 1590; van den Brink *et al.*, 2006: 45).

While beneficiaries of land reform can acquire land by various routes, in most cases they end up acquiring substantial properties (upwards of 100 hectares) as part of a collective ownership group. This is due to a number of factors, including the large average size of commercial farm properties in South Africa, the need to combine resources across many households in order to buy land (in the case of the grant-based redistribution programme) and the generally large size of communities claiming land (under the restitution programme). This is greatly exacerbated, however, by the resistance on the part of the state to any subdivision of existing commercial farm units. This has led to a preponderance of large and often unwieldy and factious groups attempting to manage farms and allocate benefits as a



collective, often with disastrous results (Mayson, 2003; Hall, 2007: 15). For reasons related to the size of claimant communities, and the size (and quality) of land under claim, joint ventures have largely (but not exclusively) been associated with restitution claims, rather than the wider redistribution programme. The cases examined here all arise as part of the restitution programme.

In terms of the Restitution of Land Rights Act of 1994, individuals or communities that have been deprived of property rights under racially-based laws or policies since 1913 can claim restitution for such loss. All restitution claims are against the state (rather than against past or present landowners) and can be settled by either cash compensation, restoration of the land in question or other appropriate remedies, depending on circumstances. Up to the end of 1998, when the lodgement process came to an end, approximately 80,000 claims were lodged, by both individuals (typically on behalf of their ancestors) and communities. The majority of these claims have since been settled by cash compensation, with no return of land, but a sizable minority have been settled by restoration of the land claimed. Typically this has been less-developed rural land, including large areas in the semi-arid north-west of the country and in areas such as the Kruger National Park, and claimants have often been restricted in what they can do with the land.

The highest concentration of claims on agricultural land has been in the north-east of the country. Derman *et al.* (2010: 309) argue that a range of factors are contributing to the pressure for return of ancestral land in this particular area: the relatively recent date of dispossession (i.e. after the 1913 cut-off); the continued existence of claimant groups as distinct communities living in close proximity to the claimed lands; a history of contestation of dispossession, stretching up to the present day; the continued involvement of many communities in agriculture; and the fact that the land under claim continues to be used for agriculture.

The claimants in this area are generally large community (or tribal) groups, which historically held the land collectively under traditional laws and customs, and claims typically encompass numerous contemporary agricultural holdings. With the growth in population over time, claimant groups may consist of hundreds or even thousands of individuals. Under the law, land is restored to the community as a whole (generally understood as the descendants of those originally dispossessed), without subdivision, generally resulting in large groups holding large properties, generally with an assumption (on the part of both claimants and government) that the land will be managed as a single entity on behalf of the entire community.

The internal organisation and dynamics of these large land-holding groups have been particularly problematic. In terms of land reform policy, claimant groups must constitute themselves as a 'legal entity', which in most cases is either a legal trust or a communal property association (CPA), a new form of institution specifically allowed for under legislation. Various studies have found that few if any such institutions are performing as envisaged by the law – in terms of management of assets, distribution of benefits or democratic process – and many have ceased to function altogether

(CSIR, 2005; CASE, 2006). The question of how a large heterogeneous community can effectively manage operations as complex as large commercial farms is therefore fundamental to the land restitution process in South Africa and effectively remains unanswered in theory or practice.

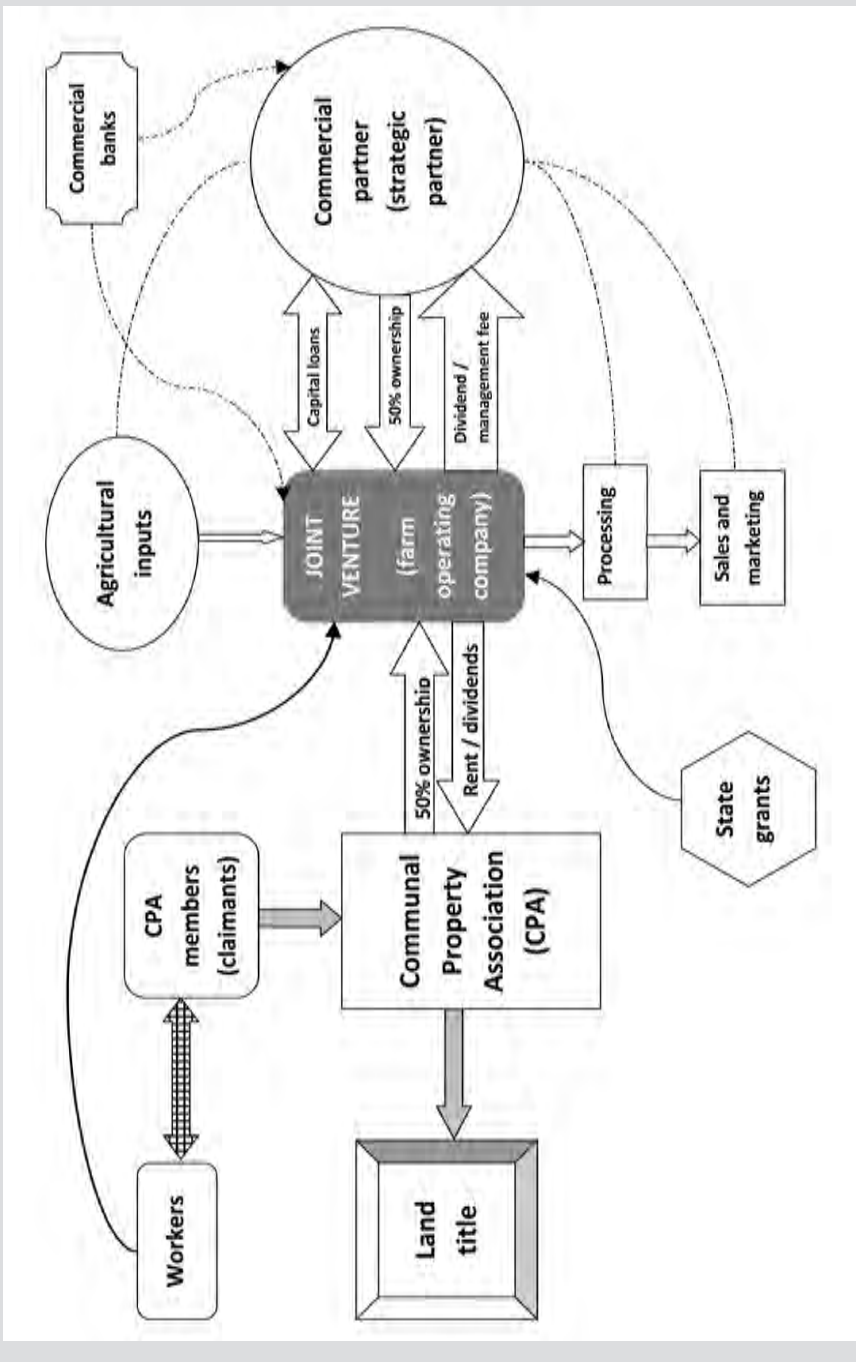
Early experience with restitution revealed that communities faced a range of challenges in terms of agricultural production and the distribution of benefits to group members, including lack of working capital, lack of expertise in the areas of production and marketing, abuses of power by local elites, and internal conflicts (Hall, 2007). Although considerable financial support was provided by the state, this was not generally accompanied by the long-term technical support that new owners required. These problems were particularly acute in areas of high-value (and technically sophisticated) production, such as dairying and sub-tropical fruit and nuts. The high prices paid for such land, coupled with the widespread perception of a collapse in production (actual or anticipated), have given rise to anger among intended beneficiaries and ongoing criticism of the state agencies involved, not least from politically conservative landowners and the wider business sector.

This led the national Department of Land Affairs (later the Department of Rural Development and Land Reform) and the Commission on Restitution of Land Rights to explore ways in which necessary skills and resources could be made available to claimant groups and agricultural production maintained. In Limpopo, the model that was favoured by state agencies from about 2001 has been strategic partnership, whereby claimant communities enter into joint ventures with existing firms to operate farms more or less along the lines established prior to transfer of ownership. Derman *et al.* (2010: 310) summarise the factors leading to the implementation of the strategic partnership model in Limpopo as follows:

*An economic imperative to maintain the productivity of commercial farms and minimize the impact on employment and the local export economy; a developmental imperative to ensure long-term benefits to claimants, over and above the symbolic value of the return of the land or the limited benefits perceived to flow from alternative land uses (e.g., 'subsistence' agriculture); a political imperative to preserve the image of the government — in the eyes of political opponents, potential investors, and international commentators — as competent, dependable in fulfilling its promises, and responsible in the use of state resources.*

Since 2005, strategic partnerships have become the norm in high-value restitution cases, and are concentrated in the sub-tropical zones of Limpopo and Mpumalanga provinces. This can be attributed to the higher quality of the transferred land, compared to land claims in other parts of the country, the technical and financial challenges faced by large claimant communities in operating these farms and, perhaps most importantly, growing pressure on communities from state agencies to include commercial partners in order to avoid a repetition of the well-publicised collapse of a number of earlier restitution projects. While many of these partnerships are still at an early stage, evidence is emerging that many are facing difficulties in

Figure 2. Key elements of a typical strategic partnership/joint venture (dotted lines indicate potential relationship)



establishing themselves and a number have already collapsed. The strategic partnership model has evolved gradually since it was first proposed, with some variation between districts, but the broad concept continues to centre on a long-term commercial partnership between a community and a commercial operator. Separate partnerships are generally created for each community, although this is complicated somewhat by the fact that in Levubu, for example, multiple communities are in partnership with the same commercial operators (albeit in separate legal entities), while at Moletete a single community has entered into partnerships with multiple commercial operators.

Under the strategic partnership model, ownership of land is vested in the claimants, organised in a legal trust or a CPA. Once initial agreement has been reached between all the parties, formal title to the land is transferred directly from the existing landowner to the community with the state paying the owner the agreed purchase prices. The land transfers and the provision of additional state grants are specified in a settlement agreement signed between the claimant communities and the state. Each claimant community and its strategic partner (or partners) are then required to form an operating company, in which farm workers may also be given a small share through a specially created farm workers' trust (although this had generally not occurred in practice – see below). Specific responsibilities and rights regarding the company and its operations are supposed to be spelled out in a series of documents, typically including a shareholders' agreement, a lease agreement and, in some cases, a management agreement between the parties although, as argued below, these agreements are often lacking in specific detail. The key elements of such a strategic partnership are illustrated in Figure 2.

Profits made by the joint venture are expected to be paid as dividends to shareholders according to their shares, or reinvested in the operating company. Although the operating company is jointly owned, day-to-day management of the farms is generally in the hands of the commercial partner who, in terms of the shareholders' and management agreements, has control of financial and operational matters. Depending on the exact nature of the agreement, the commercial partner may charge the operating company a fee for management services, to cover salaries of senior staff and other costs. Since the restitution programme does not pay for movable property, such as tractors, trucks, packing machinery, or pumps, the transferred farms typically do not possess the equipment required for production. Vehicles and other equipment, therefore, have to be obtained by the new company, either through leasing arrangements or purchase.

Under the strategic partnership model, claimant communities are expected to benefit in a number of ways. Because of the relatively high value of capital assets it contributes to the new company, the community is entitled to a cash rental from the operating company, levied as a direct cost on the joint venture. In addition, as shareholders, the community may receive a share of any profit made by the operating company, typically in the order of 50%. In addition, communities may benefit from preferential employment opportunities in the enterprise and a range of training

opportunities for both employees and members of the wider community. Preferential procurement of goods and services from companies based within the community may also feature, along with support for new business ventures, although this is generally not specified in the formal agreements between the parties. In a move to protect the long-term interests of the communities, settlement agreements specify that communities may neither sell, mortgage, nor otherwise put their land at risk. While this may shield communities from risks, and protect land rights over the long-term, it has obvious implications for communities (or the new joint ventures) wishing to raise finance through the use of land as collateral.

For the commercial partners, these arrangements also offer a range of potential benefits, at least in theory. Early on, it appeared that the prospect of a management fee – based on turnover rather than profit – was a major attraction (Derman *et al.*, 2010: 315). As the nature of commercial partnerships has changed over time, however, the prospect of a management salary may be more important, especially for smaller partners, some of whom are effectively individual entrepreneurs working on contract (see below). A second potential benefit is a share of profit but, as will be shown, the need for considerable up-front investment and the failure of most projects to produce any profits in the early years make this a faint prospect, especially in the short term. Further benefits may lie in the control of upstream and downstream activities related to farm production, such as the provision of fuel, machinery or nursery stock, or the processing and marketing of produce, especially if these activities are not shared with the community partners; this is the area about which communities and other informants tend to be least informed, or unwilling to share information.

The broad elements of this rather complex and experimental model may be usefully summarised using the four-part schema developed by Vermeulen and Cotula (2010) to assess value-sharing in business models involving smallholders as partners, as shown in the following table. Note that the description of the joint venture model used is based on official and project-level documents: in practice, the model differs in many ways, as discussed below.

**Table 1. Strategic partnerships as a form of inclusive business model**

Criteria	Vermeulen and Cotula description	South African joint ventures	Comment
<b>Ownership</b>	Ownership of the business (equity shares) and of key project assets such as land and processing facilities.	Community owns all land and a share of the business; may or may not own a share of processing facilities.	Control of land effectively ceded to the strategic partner for duration of the agreement; control of business likely to be determined more by voice (below) than by nominal ownership.
<b>Voice</b>	Ability to influence key business decisions, including weight in decision-making, arrangements for review and grievance, and mechanisms for dealing with asymmetries in information access.	Community has equal representation at board level, but day-to-day decision making rests exclusively with the strategic partner; responsibility for overcoming asymmetries effectively lies with the strategic partner.	Board of directors is too high-level and unlikely to be involved in most operational decisions; much depends on trainee managers from the community being able and willing to influence decisions, and on ability of board members (inc. state nominees) to understand commercial operations.
<b>Risk</b>	Including commercial (i.e. production, supply and market) risk, but also wider risks such as political and reputational risks.	Direct financial risk lies largely with the strategic partner and with the state as providers of grants. Community is exposed to opportunity costs in terms of time, land use and use of grants. Collapse of an enterprise likely to leave communities with degraded assets and internal tensions. State stands to lose financial investment and reputation if projects fail. Workers at risk of job losses or replacement with community members.	Disputes around provision of working capital led to early shifting of risk from strategic partners to the state (or arguably to the community).
<b>Reward</b>	The sharing of economic costs and benefits, including price setting and finance arrangements.	On paper, communities are well provided for, in terms of land rentals, a share of profits and training opportunities. Strategic partners would benefit from share of profits, management fees and exclusive control of upstream and downstream opportunities.	Slow start-up and considerable early losses eliminated hopes for early profits, while debts accumulated; deferral of rentals left communities financially exposed; employment and training opportunities generally fell below expectations.

### 3. Levubu case study

The Levubu River is a tributary of the Limpopo, and the Levubu valley is situated in the extreme north-eastern corner of South Africa, east of the town of Makhado (formerly Louis Trichardt), see Figure 3. Before 1898 the military strength of local tribes and the presence of malaria meant the area was not occupied by white settlers who only arrived in significant numbers from the 1920s (Harries, 1989). The colonial government of the time established an irrigation scheme for poor white farmers in the 1930s, which only became fully operational with the construction of the Albasini dam in the 1950s. The valley soon emerged as a centre of sub-tropical agriculture, based on citrus, bananas, mangos, guavas and avocados and, more recently, litchis and macadamia nuts, supplying both national and international markets. Temperatures range from an average high of 21°C in June and July to 28°C in January, and an average low of 10°C in June up to 18°C in February. Average precipitation is 561 mm per annum, with over half of this falling in the period December-February. Frost is an occasional problem.<sup>1</sup>

Under Apartheid, the area formed part of 'white' South Africa, and land ownership was reserved for white people. The African population of the area – speaking mainly Venda and Shangaan (or Tsonga) – was gradually removed from the best agricultural land and surrounding hillsides. Sizable numbers were incorporated into the white-controlled agricultural economy, mainly as labour tenants and wage labourers, through a variety of repressive measures (Lahiff, 2000; Fraser, 2007).

Virtually the entire irrigated area in the valley – in excess of 400 individual properties – has been claimed under the Restitution of Land Rights Act. This has given rise to a prolonged – and vigorously contested – process of legal investigation and verification of claims, and the gradual transfer of properties from white owners to black claimants.<sup>2</sup> The first two phases of settlement (in 2004-2008) saw the transfer of approximately 5,382 hectares of land, in 63 parcels, to seven claimant communities, at a total purchase price of 219 million South African Rand (ZAR) (equivalent to approximately USD 31.7 million).<sup>3</sup> The state, through the Department of Land Affairs, allocated an additional ZAR 5 million (USD 724,000) to claimant communities in the form of Settlement Planning Grants and Restitution Discretionary Grants,<sup>4</sup> for farm planning and land development, and substantial additional grants for development purposes were later provided (see below). The choice of properties for transfer in the early phases of resettlement was effectively determined by the existing landowners, some of whom accepted the offers made by the state while

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1. Climate statistics from Weather Report.Com:

[http://www.weatherreports.com/South\\_Africa/Levubu/averages.html?n=2](http://www.weatherreports.com/South_Africa/Levubu/averages.html?n=2)

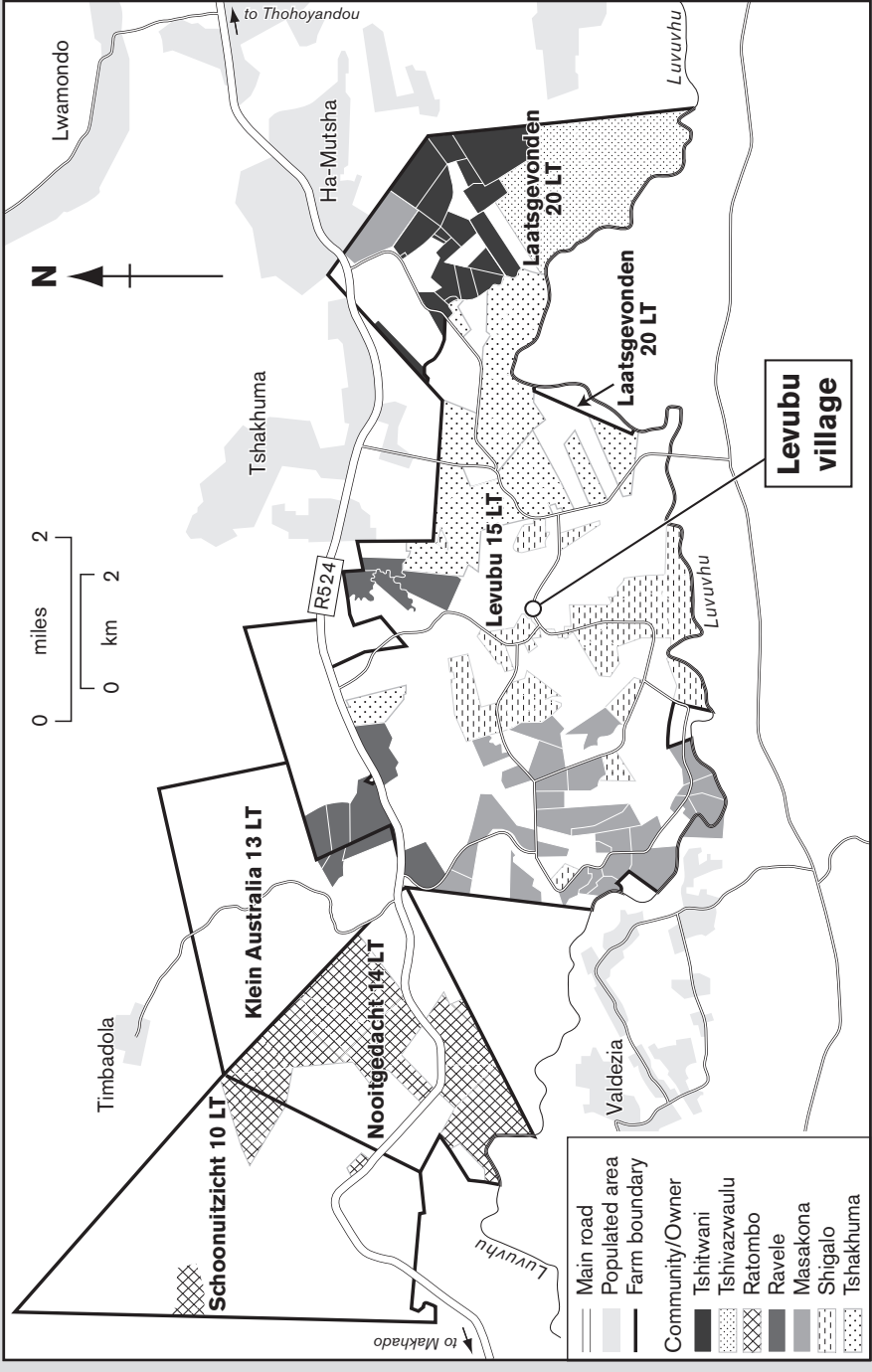
2. 'Levubu: the litmus test for land reform'. *Farmer's Weekly* (South Africa), 4th March 2005, pp.34-35. Article by S. Hofstatter.

3. Exchange rate used throughout this report (as of 12 November 2010): USD 1 = ZAR 6.91.

4. Also referred to as Section 42C grants.



Figure 3. Levubu claims (overall situation at the time of writing)



others rejected them (with many expressing outright opposition to the entire restitution process). To date, the state has not used its powers of expropriation to seize land from uncooperative owners, either at Levubu or at Moletele (below).

This section provides an overview of the seven community claims at Levubu, with a more detailed examination of the Ravele joint venture.

It is not known exactly how many workers were employed on the farms immediately before or after the transfer of ownership, but estimates for Levubu as a whole put the figure for workers employed either directly on the farms or in the upstream and downstream businesses linked to them in the area of 10,000 (Lahiff *et al.*, 2006).

The restitution claimants at Levubu are all defined as communities, in terms of the Restitution Act, mainly on the basis that land was originally held as a community, under a central authority (i.e. a tribal chief), and that land rights were therefore based on membership of this community rather than on western concepts of individual title. These communities all define themselves in terms of their tribal identities – Ravele, Tshakhuma, Ratombo, Shigalo, Tshivazwaulu, Masakona and Tshitwani – and hereditary tribal chiefs ('traditional leaders' in South African parlance) feature prominently in the leadership of these communities. Nonetheless, they are all formally established as either CPAs<sup>5</sup> or legal trusts. The number of households involved ranges from 57 in the case of Tshivazwaulu community to 324 in the case of Ravele (see Table 2).

**Table 2. Land claimant communities at Levubu**

Name of community	Size of land restored (ha)	Number of households	Total value of claim (Rand million) <sup>6</sup>
Ravele	344	324	52.5
Tshakhuma	861	144	65.5
Ratombo	1,330	52	44.2
Shigalo	715	120	45
Tshivazwaulu	651	57	4.5
Masakona	860	148	60.5
Tshitwani	621	78	36.9

Source: Commission on Restitution of Land Rights *Section 42D Memorandum* (no date); and Commission on Restitution of Land Rights *Section 42C Memorandum*, dated 6th August 2007.

5. For example, the Ravele CPA was formally constituted in terms of a written constitution signed on 13th March 2004.

6. Including land purchase (phases 1 and 2), Restitution Discretionary Grant, Settlement Planning Grant and Section 42C grants.



Photo: ©Edward Lahiff

**A banana packing facility at Levubu.**

The farms in question are mainly planted with perennial fruit and nut orchards, although sizable areas are used for annual crops such as cabbage, maize and sweet potatoes. Not all land was in full production at the time of transfer, meaning that there was scope for additional crop development. While most activity is centred on primary production, a range of added value processes are also located in the Levubu valley and some of these (but not all) have been transferred to claimants along with land. These include packing facilities for bananas and citrus, factories for the production of oils from macadamias and avocados, juice from citrus, litchis, guavas and mangos and *achar* (pickle) from green mangos.

For the Ravele community, the total value of land transfers and other benefits to date has been ZAR 52.5 million (USD 7.6 million), comprising a total land cost of ZAR 41 million (USD 5.9 million), Development Assistance grant of ZAR 10.3 million (USD 1.5 million), Settlement Planning Grants of ZAR 470,000 (USD 68,000) and Restitution Discretionary Grants of ZAR 970,000 million (USD 140,000) (see Table 2). Both Masakona and Tshakhuma exceeded this figure, whereas Tshivazwaulu was considerably less, at ZAR 4.5 million (USD 650,000) in total.<sup>7</sup> The Restitution Discretionary Grants is based on the value of land transferred (25% of purchase price), while the latter two are based on the number of households within the respective communities: ZAR 1,440 (USD 208) per household of the Settlement Planning Grant and ZAR 3,000 (USD 434) per household for the Restitution Discretionary Grant.

7. Source: Commission on Restitution of Land Rights, *Section 42C Memorandum*, dated 6th August 2007.

As noted above, the push for strategic partnerships in Limpopo came originally from the office of the Regional Land Claims Commissioner in Limpopo, working with the Restitution Support branch of the provincial Department of Agriculture, but it has been shaped by demand from communities themselves who have argued they must not be saddled with elaborate enterprises that they are unable to manage effectively. Pressure also came from existing owners of land, as well as politicians and local providers of goods and services, to maintain the productivity and integrity of the local economy.

The state agencies originally proposed that a single company, South African Farm Management (SAFM), controlled by the Boyes Group, would become the strategic partner for all the claims in the Levubu valley. SAFM was set up specifically to engage in such partnerships by established (white) interests in the agricultural sector and new black empowerment partners, and already enjoyed a close working relationship with the provincial Department of Agriculture. This proposal was resisted by at least some of the Levubu communities due to the lack of an element of choice and the implication that all communities should work together. The Regional Land Claims Commissioner subsequently selected a second company, Mavu Management Services, formed by a number of white farmers from Levubu, with individual black partners, as a second strategic partner for the Levubu claimants. By June 2005, SAFM had been confirmed as the strategic partner for five of the seven claimant communities at Levubu, and Mavu as the partner for the remaining two. Formal agreements were not signed until late 2007, however, and the impact of prolonged negotiations on productivity and the physical condition of the properties has been a major source of contention. As will be shown below, all of these partnerships collapsed within less than three years.

### **3.1 Ratombo and Shigalo farms**

The Shigalo and Ratombo communities both formed partnerships with Mavu, in April 2006, and so share a common experience. For the white farmers that controlled Mavu, this arrangement added considerable volume to their existing farming operations at Levubu and held out the prospect of additional throughput for their local processing plants. Produce from the Shigalo and Ratombo farms would be marketed on domestic and international markets using channels largely controlled by Mavu.

From the outset, the farms were reportedly in poor condition due to neglect by the former owners, due in turn to delays in release of purchase payments by the state leading to delays in transfer of ownership to the communities.<sup>8</sup> According to informants in Shigalo, Mavu spent a considerable amount on operating the farms over the following year, including payment of wages and purchase of machinery and other inputs, but much of this would have been recovered through the sale of farm produce (all income going to Mavu at this time). Development grants that had been

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8. Interview with members of Shigalo CPA, 16th August 2010.

promised by the Commission on Restitution of Land Rights to the proposed joint ventures did not materialise at this time, however, and Mavu pulled out of the arrangement in June 2007, before any formal agreement was signed. A similar story was related by informants at Ratombo. On the departure of Mavu, the Shigalo CPA reportedly paid Mavu an amount of ZAR 1.8 million (USD 260,000) for machinery and other assets that Mavu had purchased for the farms. On the Ratombo farms, informants reported that Mavu was involved only for the period June to September 2007 and, when it withdrew, the community used part of its grant funding to buy the equipment from the company. Throughout this period, Mavu appears to have carried out basic maintenance on the farms and met other costs out of crop revenues, but no financial benefit accrued to the communities in the form of either rent or profit share.

With the departure of Mavu, South African Farm Management, which was then active on the neighbouring farms (see below), came into the farms in a caretaker capacity, by agreement with the provincial Department of Agriculture, but again without any formal agreement with the communities of Shigalo or Ratombo. As before, revenues from the farms went directly to the intended strategic partners and no benefits flowed to the communities during this phase.

In December 2007, however, the Shigalo and Ratombo communities signed 15-year lease and strategic partnership agreements with a new strategic partner, Umlimi Holdings, in preference to SAFM. Umlimi described itself as an integrated agricultural group,<sup>9</sup> and is a subsidiary of Peu Group (Pty) Ltd. Peu is a black-owned and predominantly black-managed investment holding company heavily involved in Black Economic Empowerment deals across mainly financial services, information and communication technologies, supply chain, fleet lease and automotive sectors.<sup>10</sup> The management structure, however (and subsequent events), suggests that Umlimi is effectively an arm of Free State Maize, a large white-controlled agro-processing company. Umlimi managed the farms remotely from its offices in Johannesburg and Cape Town, although a locally-based manager was employed for some time. On signature of formal agreements with Umlimi, in December 2007, state grants worth in excess of ZAR 16 million (USD 2.3 million) were reportedly transferred to the new operating companies (joint ventures), part of which was used to purchase equipment from Mavu.<sup>11</sup> As with most aspects of the restitution process at Levubu, however, there is considerable debate and confusion about the total value of grants handed over to the communities or their partners, and when, and what exactly happened to the money.

Informants at Shigalo reported that, under Umlimi, harvests in the first year of operation (2008-09) were well below optimal, due largely to a lack of maintenance and necessary investment.<sup>12</sup> At Ratombo, Umlimi was reported to have been harvesting throughout the year 2008 and, while it paid for current expenses such as

9. See <http://www.umlmi.co.za/index.html>

10. See <http://www.peugroup.co.za/overview.htm>

11. Interview with members of Shigalo CPA, 16th August 2010; interview with CRLR officials, Polokwane, 17th June 2010.

12. Interview with members of Shigalo CPA, 16th August 2010.

Photo: ©Edward Lahiff



Farm office at Levubu.

wages and agricultural inputs, it did not fund any new planting or other long-term investments.<sup>13</sup> During this time, community members complained, all farm revenues and grant income from the state was effectively under the exclusive control of Umlimi, with little or no involvement by community representatives in decision making and no reporting of financial affairs.

By late 2009, the Shigalo and Ratombo farms managed by Umlimi were in serious financial trouble. Umlimi representatives resigned from the boards of the two joint venture companies and were replaced with people (reportedly from Free State Maize) previously unknown to the communities; within a short time both operating companies were in provisional liquidation.<sup>14</sup> In the case of Shigalo, this was forced by a relatively minor creditor which was owed just ZAR 220,000 (USD 32,000) for irrigation equipment. Total debts for the company, however, were reported to be in the order of ZAR 17 million (USD 2.5 million), although this could not be verified; over ZAR 1 million (USD 145,000) was owed to a fertilizer supplier and ZAR 1.2 million (USD 174,000) owed to the community (i.e. CPA) in rent.<sup>15</sup> Ratombo was reportedly faced with similar levels of debts. All staff on the Umlimi-run operations (in excess of 400 at Shigalo alone) were laid off in early 2010 and less than half of them were

13. Interview with members of Ratombo CPA, 15th June 2010.

14. Interview with members of Ratombo CPA, 18th June 2010. It would appear that Free State Maize was the effective power behind Umlimi, and reportedly replaced the directors without consultation with the community.

15. One community representative estimated that Umlimi had invested up to ZAR 4 million (USD 580,000) in the Shigalo joint venture, although at the time of signing the agreement mention was made of credit facilities of up to ZAR 200 million (USD 28.9 million). It was also mentioned that ZAR 2.3 million (USD 332,000) in grants was used for implements, and that the total value of grants paid amounted to ZAR 9 million (USD 1.3 million).



subsequently re-hired on a temporary basis. The precise status of the joint venture operations was not clear at the time of fieldwork (August 2010), but had effectively collapsed. Umlimi was attempting to negotiate the sale of its share in the joint operating company to the Shigalo community for ZAR 5.5 million (USD 796,000), money that the community had no hope of raising. By October 2010, Shigalo was reportedly attempting to form a new operating company – Shigalo Farm Management – in order to run its farms without a strategic partner.<sup>16</sup>

The ongoing difficulties experienced by Shigalo and Ratombo communities and the failure of financial benefits to materialise over a five-year period have contributed to growing tensions within these communities. At Ratombo, this had led to an effective split in the community, with one faction allied to the official CPA committee (and to the Ratombo royal family) and the other opposed to it. In 2009 the Ratombo community had a further three farms restored to them and small groups of individuals within the community occupied the farms in order to prevent them falling under the control of the CPA committee or becoming part of the joint venture with Umlimi. These farms are now being worked by a handful of community members, using their own very limited resources, at a very basic level. Sales of bananas and some vegetables are providing some limited cash flow but not sufficient to carry out necessary maintenance on the irrigation infrastructure, replant aged banana plants or hire the labour necessary for weeding.<sup>17</sup> This subgroup was advocating for the outstanding development grants (estimated at ZAR 3.5 million, approximately USD 506,000) to be paid directly to them, for use on the farm, but this had not yet been agreed with the Regional Land Claims Commissioner, reportedly on the basis that the subgroup did not have the support of the official CPA committee and that complete financial reports on the joint venture company had not been produced. While this group is working hard to make a success of the farm, their experience highlights the importance of external sources of finance (and expertise), whether from state or commercial partners, to commercial farming operations at Levubu.

Other problems reported by community representatives at Shigalo and Ratombo were that produce from the two operations was also reportedly mixed together by Umlimi management, and no separate accounts were kept; as a result, there is ongoing dispute between the two communities over revenues due to them and around ownership of shared assets such as tractors.

At the time of writing, these farms were operating only at a very basic level, and no strategic partnerships or other joint ventures were actually in operation.

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16. Interview with members of Shigalo CPA, 23rd October 2010.

17. Interview with farmers at Meyer farm (Ratombo), 18th June and 18th August 2010.



### 3.2 Partnerships with SAFM

South African Farm Management (SAFM) was appointed by the Limpopo Department of Agriculture in June 2005 to manage the farms owned by the Ravele, Tshakhuma, Masakona, Tshitwani and Tshivazwaulu communities until formal agreements could be signed with the five communities. SAFM, like Mavu, was largely engaged in agricultural production but, through its links to the Boyes group, was also integrated into downstream processing and marketing operations, both for the domestic (South African) and international markets.

At the outset, this partnership involved a total of 3,334 hectares of land, in 45 portions, with a total purchase price of ZAR 148.6 million (USD 21.5 million). By the time the joint venture agreement with SAFM was finally agreed, in December 2007, the total land area had risen as a result of further land transfers, by approximately 200ha, bringing the total value of land to ZAR 182 million (USD 26.3 million).<sup>18</sup> A further ZAR 45.5 million (USD 6.6 million) was approved for these communities in the form of Development Assistance Grants, to be paid directly to the operating companies. This was calculated at 25% of the total land purchase price, the maximum grant amount allowed under the law. Controversy persists, however, around exactly how much of the development grant was actually paid over by the state and exactly how it was used.

Under the joint venture agreement, each operating company was to be controlled by a board of directors, consisting of five community representatives, five representatives of SAFM and a non-voting director (a state official) appointed by the Limpopo Department of Agriculture. For the first three years of the agreement, the chairperson of the board would be a representative of the strategic partner, and enjoy a casting vote.<sup>19</sup>

Similar business arrangements were made for all five communities involved with SAFM. Indeed, all the newly-created joint ventures were managed by the same management team, based at the same office, on Appelfontein farm, although the five boards of directors met separately and communities were not generally involved in each other's business. In the case of Ravele, for example, the CPA acquired 52% of the shares<sup>20</sup> in the operating company (Imperial Crown Trading 43 Pty Ltd, established in 2005) through a Shareholders' Agreement signed on 8th December 2007, designed to last for a period of 10 years, after which the CPA would have the option to buy out the strategic partner. On the same date, an Agreement of Lease

18. Source: Commission on Restitution of Land Rights, *Section 42C Memorandum* dated 6/08/2007. For Ravele, the total value of grants was ZAR 11.7 million (USD 1.7 million), which included all SPG, RDG and Section 42C (development) grants; these were approved by the Chief Commissioner on 6th August 2007 and approved for transfer to the joint venture (following signing of the shareholders' agreement) on 21st December 2007 (Commission on Restitution of Land Rights, *Transfer of Funds Agreement, Ravele Community*, dated 21 December 2007).

19. *Shareholders Agreement Amongst South African Farm Management (Proprietary) Limited and Ravele Communal Property Association* (signed 8th December 2007).

20. The shareholders' agreement stipulated that 2% of shareholding, to be taken from the CPA share, would be transferred to workers' trust once this was established, but this never happened.

was signed between Ravele CPA and the operating company, again for a period of 10 years. Rent was calculated at 1.25% of the purchase value of land per annum, payable monthly.<sup>21</sup>

In December 2007, the state agreed to transfer large grants that were owed to the communities for development and related purposes. For the communities working with SAFM, this amounted to approximately ZAR 50 million (USD 7.2 million), of which approximately ZAR 45.6 million (USD 6.6 million) was transferred directly to the operating companies.<sup>22</sup>

For Ravele alone, the grants were worth ZAR 11.7 million (USD 1.7 million). The Transfer of Funds Agreement signed by the Commission on Restitution of Land Rights and the Limpopo Department of Agriculture<sup>23</sup> makes clear that these grants would be paid to the joint venture (i.e. the operating company), and not to the community:

*The Commission will transfer a total amount of R11,703,560 in two equal tranches of R5,851,780 in four month intervals into the Operating Company bank account for purposes of operating the properties restored to the [Ravele] CPA as outlined in the business plan. (Clause 1)*

Moreover, the same agreement also makes clear that the state would remain in a position to control the use of these funds, raising questions as to how effectively it subsequently carried out this function:

*Prior to transfer of the funds mentioned (...) the Operating Company and the CPA shall ensure that the Limpopo Department of Agriculture is a co-signatory to the above mentioned bank account. This means that the money transferred to the Operating Company account (...) shall not be withdrawn without the signature of a designated official of the Limpopo Department of Agriculture. (Clause 2)*

Major financial difficulties became apparent within the Ravele-SAFM joint venture from the outset; although less information was forthcoming, it would appear that Tshakhuma, Masakona, Tshitwani and Tshivazwaulu communities had a similar experience in terms of limited financial information, few if any benefits to the communities and rapid collapse of the partnerships. At the first-ever meeting of the board of directors of the new (jointly owned) operating company, in February 2008, the financial report of the Company was not ratified, apparently as a result of what community leaders described as 'serious discrepancies' related to accumulating losses, non-availability of audited financial statements for the previous two years and lack of clarity around the amount of money to be invested by SAFM in terms of the

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21. Agreement of Lease between Ravele Community Property Association and Imperial Crown Trading 34 (Proprietary) Limited.

22. There is, however, some dispute around whether the total amount was actually transferred by the state agencies involved.

23. Transfer of Funds Agreement between Department of Land Affairs and Limpopo Department of Agriculture and Imperial Crown Trading 43 PTY (Ltd). Signed 13th December 2007. Copy in Ravele CPA files.

Shareholders' Agreement.<sup>24</sup> At a follow-up meeting in May 2008, the community representatives learned that the provincial Department of Agriculture Government had already transferred ZAR 5.8 million (USD 840,000) worth of development grants directly to the operating company, seemingly without the knowledge of the community. Community leaders were under the impression that such development grants would be transferred to the company only when they were satisfied with the financial position and had obtained clarification from SAFM regarding the extent of its liabilities. According to leaders of the Ravele community, SAFM was subsequently unable to account for how the grant money was spent and, in September 2008, the CPA received a letter from SAFM (indirectly, via the Department of Agriculture) announcing that it was withdrawing from the strategic partnership. It was only at that point that the community learned the extent of the bank overdraft incurred by the operating company, and that a cession had been given on the farm's crops. The following month, the bank froze the company's account, creating great difficulties for the farming operations.

For the nine months or so that SAFM was operating in a formal partnership with the five communities, there does appear to have been some effort made to train and mentor management candidates from the communities and more expenditure on maintenance and production inputs. According to the Ravele farm manager, SAFM took over the farms in reasonably good order, but then focused their attention on harvesting and selling the produce, and did not invest significantly in replanting, pest-control (spraying) or irrigating. As a result, productivity fell far below the industry standard. Where SAFM made investments, including the rental paid to the CPA, this was largely on the basis of capital borrowed from ABSA Bank, for which the community found itself ultimately liable.<sup>25</sup> None of this income was passed on to community members.

Losses on all the SAFM-controlled farms were considerable. For the year ending 28th Feb 2007 (the first full financial year for which SAFM was in sole charge of operations), the Ravele-owned farms made a net loss of ZAR 2.306 million (USD 334,000), reporting sales of ZAR 0.567 million (USD 82,000) – almost entirely from bananas – against expenditure of ZAR 2.874 million (USD 416,000). No sales at all were recorded for the very substantial citrus and macadamia orchards. For the period March 2007 to September 2007, losses of ZAR 1.706 million (USD 247,000) were incurred, bringing the accumulated debts of the company to just over ZAR 4 million (USD 580,000).<sup>26</sup>

Following its withdrawal from Levubu, SAFM itself went into liquidation. This left the communities as sole owners of the operating companies and, as such, responsible for the accumulated debts. It is significant that, during its time in Levubu, SAFM borrowed funds not in its own name but in the name of the joint venture companies.

24. Interview with members of Ravele CPA, 15th August 2010.

25. Interview with Ravele farm manager and CPA members, 18th August 2010.

26. Source: Income Statement included as part of the Shareholders Agreement, signed 8th Dec 2007. Total sales for year March 2007-Feb 2008 were ZAR 3.555 million (USD 515,000) (interview with BR).

Following the collapse of the joint ventures, the Commission on Restitution of Land Rights issued a press statement which referred to its 'difficulties in obtaining the audited financial statements from SAFM as the lead partner in the strategic partnerships'.<sup>27</sup> The Commission was clearly under the impression that SAFM was incurring the debts in its own name:

*A meeting was held with the CLCC, ABSA and SAFM a few months ago wherein ABSA indicated that it is not in a position to continue giving SAFM bridging finance if the Commission does not avail grant funding. While operating the farms, SAFM had to use some of the operating finance from ABSA to do capital improvements on the restored farms in order to keep the farms functional pending approval of grant funding from the Commission. This has led to a situation where ABSA decided to put on hold further funding to SAFM. It is therefore crucial that the requested grant funding be approved otherwise the farms will collapse.*<sup>28</sup>

Thus, not only did the communities lose all or most of their development grants as a result of the collapse of the joint ventures, but they were left with very substantial debts to the banks and other creditors. Although the operating companies could, in principle, be liquidated, and the debts written-off, this did not appear to be an option for the communities concerned. Possible explanations for this are that the communities feared that, as owners of the land, they could still be pursued by creditors (i.e. they could not hide) or, more likely, that any new company arising from within the same community would be denied credit and other services (i.e. be black-listed) by existing and potential creditors. This left the communities with little option but to work off their debts or, in some cases, to be denied credit.

As in many other respects, the precise role played by the provincial Department of Agriculture and the office of the Regional Land Claims Commissioner during this phase remains unclear but, despite close contact with the strategic partner (often in the absence of community representatives), and having a director sitting on the board of every joint venture company, it appears that the state institutions were not well informed regarding the details of the company and did not intervene in a timely manner to address the mounting financial problems. Indeed, community representatives reported that the state-appointed directors 'defended SAFM'<sup>29</sup> against all criticisms raised by the community.

27. Commission on Restitution of Land Rights 2008, *South African Farm Management partnership with restitution beneficiaries under review*. Press statement, 20 November 2008.  
<http://www.info.gov.za/speeches/2008/08112110151002.htm>

28. Commission on Restitution of Land Rights, *Section 42C Memorandum*, September 2007.

29. Interview with members of Ravele CPA, 17th August 2010.

Photo: ©Edward Lahiff



Citrus orchard at Levubu.

### 3.3 Post-SAFM: the case of Ravele

On the exit of SAFM, the farming enterprises owned by the communities of Ravele, Masakona, Tshitwani, Tshivazwaulu and Tshakhuma were left in varying states of disarray.<sup>30</sup> Of these, the Ravele farms appear to be making the most progress towards a viable commercial operation without a major strategic partner, and are examined here in more detail.

Ravele was left in severe financial difficulties following the collapse of SAFM. In October 2008, the first month in which it traded on its own, the operating company faced debts of over ZAR 5 million (USD 724,000): ZAR 3.1 million (USD 447,000) owed to ABSA bank, ZAR 2.1 million (USD 304,000) to various suppliers and ZAR 170,000 (USD 25,000) to the CPA in rental. It was particularly frustrating for the community that, despite the operating company absorbing so much of its grants,

30. Interview with members of Masakona CPA, 17th June 2010.



and incurring such large debts for which it was now responsible, much of the machinery on the farms was said to be the exclusive property of the strategic partner, and in August 2010 the community was in the process of negotiating for the purchase of tractors and other machines (valued at ZAR 1.2 million, or USD 174,000) from the liquidators of SAFM.<sup>31</sup>

In March 2009 the operating company on the Ravele farms – Imperial Crown Trading 43 (Pty) Ltd, now effectively owned entirely by the CPA – was put under provisional judicial management (first stage of liquidation) but was allowed to continue trading under supervision.

One of the strategies used by SAFM was to hire a locally-based agricultural specialist to manage a number of the farms under its control. The general manager had prior experience of managing farms on behalf of other private owners at Levubu, and worked as a consultant to others, particularly in the macadamia sector. Since the withdrawal (and bankruptcy) of SAFM, this manager has continued to work with some of the communities, particularly with Ravele and Masakona, where a new form of partnership is emerging: not involving a large corporation from 'outside', but with an individual entrepreneur whose principal input is his expertise, with no promise of capital investment.

A key role for the general manager has been negotiation with creditors, particularly with the banks. In May 2010, agreement was reached that both Ravele and Masakona would each pay ABSA bank ZAR 865,000 (USD 125,000) over a five-year period (described as a 'compromise arrangement' as some of the debt was wiped out), in order to clear the loan outstanding from the SAFM period. This included an agreement that the bank would recoup substantial payments owed to the farm by FruitOne (Pty) Ltd, a marketing company linked to the Boyes Group (the ultimate owners of SAFM). The collapse of SAFM featured at the time in South Africa's *Sunday Times*: 'Now SAFM has gone into liquidation, allegedly owing more than R100-million. The future of the fruit farms that were claimed by the Masakona community and others in the Levubu Valley hangs in the balance.' Engelina Ramulondo, a spokesperson for the Masakona community, told the newspaper they had been shocked to discover that SAFM had allegedly borrowed ZAR 5 million (USD 724,000) for them from ABSA: 'We were not aware that SAFM had secured a loan on our behalf and now we're sitting with a debt we don't know how to settle'.<sup>32</sup> This agreement removed the threat of liquidation and meant that the company could trade normally.

By May 2010, total outstanding debts at Ravele had been reduced to ZAR 0.86 million (USD 124,000) owed to ABSA and a further ZAR 0.47 million (USD 68,000) owed to other creditors; plus a positive balance of ZAR 33,000 (USD 5,000) in a new

31. Community members were particularly incensed that the rental that was paid to them during the SAFM period was in fact borrowed from ABSA bank, in their name, with the result that they now have to pay it back.

32. Bongani Mthethwa, 'Bungle has ruined new black farmers'. *Times Live* website, 01 March 2009. <http://odilile-ayodele.suite101.com/south-africas-land-reform-programme-a99591>

bank account (with Standard Bank). By May 2010, the total outstanding debt of the operating company to the CPA (including outstanding rental and loans from the CPA account) stood at ZAR 2.3 million (USD 333,000).

Around this time, Ravele community, with the help of their farm manager, began approaching various funders for support, while also restructuring its commercial relationships with the banks, suppliers and marketing outlets. To assist in this process, a business plan was drawn up, detailing current and projected activities, cash-flow, and investment needs. A decision was taken (clearly based on recent experience) not to involve new shareholders in joint ventures but to seek investment from more conventional arms-length financiers. In particular, an approach was being prepared to the Industrial Development Corporation (IDC), a state-owned national development finance institution that provides financing to entrepreneurs and businesses engaged in competitive industries. Although operating on fully commercial lines, IDC's mission commits it to promoting job creation, economic growth, socially and environmentally responsible enterprises as well as BEE, thus making it a particularly suitable investment partner. Ravele has also submitted a business plan to the provincial Department of Agriculture, hoping to access additional grants for ZAR 1.9 million (USD 275,000).

During this turn-around phase, payment of rental to the community (which would mean taking cash out of the business) has been suspended and distribution of other benefits, as in a share of profits, is not even being considered, at least in the short term. It should be noted however, that as the community is now the sole owner of the business, as well as the owner of the land, payment of rental may no longer be appropriate and is effectively interchangeable with profit (or loss). The key question, however, remains: how will ordinary community members benefit, particularly if the operating company is not making a profit, or is committed to long-term investments, and therefore not in a position to distribute benefits?

Production at Ravele is now more focused on just three key crops – bananas, avocados and macadamias – although this has not been without some tension between the community and the general manager. Citrus, seen by many as a prestige crop because of its export potential, is being phased out by the manager, on the basis that the local environment is not ideal (compared to areas such as Letsitele and Moletete to the south): excessive precipitation reportedly leads to high incidence of black spot and requires excessive fungicidal spraying.<sup>33</sup> Export-grade fruit is costly to produce, due to the spraying requirements, and is vulnerable to a sudden drop in prices or currency fluctuation, as recent experience has shown. Lower grade fruit sold locally for juice still returns a profit due to much lower handling costs, and involves little risk. According to the farm manager, the community reluctantly agreed to a policy of no spraying and selling oranges locally for juicing, and now accept that this is a more reliable strategy that still shows a profit and, most importantly, greatly reduces pressure on scarce financial resources.

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33. Interview with Ravele farm manager and CPA members, 18th August 2010.



According to the farm manager, a judicious mix of avocados, macadamias and bananas will ensure cash-flow and, over the next year or two should yield a modest profit; and this strategic approach to production and marketing sets Ravele apart from the other land claimant communities at Levubu.<sup>34</sup> With avocados, Levubu can produce earlier in the year than virtually anywhere else in the world and thus has a comparative advantage on international markets, especially in Europe. In recent years, however, local (South African) prices have been described as 'excellent', and more profitable than exports, and so Ravele has concentrated on the domestic market. Macadamias – which are almost entirely for export – are seen as a long term-investment because of the time taken for trees to come to fruition, and somewhat risky due to fluctuations in international prices and delays in receipt of final payments from the cracking plants. Bananas yield a steady cash flow through almost the entire year, without any time lag, and are seen by the Ravele farmers as critical to meeting day-to-day cash needs. Thus, the farm is effectively running on the basis of current revenues, which covers wages, production inputs and support services, but has also yielded sufficient capital to replant 15ha of bananas. Machinery is still in short supply, and that which is available is shared between all the Ravele and Masakona farms. This is seen by the farm manager as seriously impeding production activities, especially at harvest time.

With the assistance of their professional farm manager, Ravele community has instituted new arrangements for management of the farms, which includes an active programme of mentoring and training, along with transfer of substantial responsibility to community members and an active role for the CPA committee. Each individual farm within the Ravele and Masakona clusters (14 in total) is run as a separate unit, with its own manager, all of whom are black and most of whom are from the respective communities. In addition, one pack-house manager is employed to oversee the three pack-houses on the farms, as well as a production manager, a workshop manager, two clerks (one per community) and one bookkeeper (the only other white employee, apart from the general manager). The general manager oversees weekly management meetings (one each for Ravele and Masakona), and a range of training events both on and off the farm. All managers keep careful production charts, and 'scout' for pests.

The general manager is not personally linked to any downstream processing or marketing ventures, and so Ravele community is free to use whatever processing and marketing channels are available through the market, for local, national and international distribution of their produce. Limpopo province (and South Africa generally) possesses highly developed and competitive marketing channels and, although control of downstream industries can bring additional benefits, it also brings greater levels of risk and puts additional pressure on both working capital and management expertise, both of which are in short supply at Ravele at this stage. Extending control down the value chain does not appear to be a priority. Ravele and Masakona communities, working with this general manager, have very substantial capacity in primary production, albeit of high-value produce, which they have yet to maximise; intervention down the value chain

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34. Interview with Ravele farm manager, 18th August 2010.

would tie up capital and expose them to unacceptable risks and areas where they lack expertise; they thus make use of the channels used by most other (white) producers at Levubu and in neighbouring districts who also focus primarily on primary production (only some of whom have on-farm processing or other marketing ventures). Thus, focusing on production does not put these communities at a major disadvantage, and can probably still yield substantial benefits.

In June 2010, Ravele community was approached by Green Farms Nut Company, located on neighbouring land, to enter into a joint venture that would engage in dehusking, drying and storage of nuts for farmers in the area, but with Ravele as 'preferred suppliers' to the factory (i.e. receiving preferential access during peak periods).<sup>35</sup> Another innovation being pursued by Ravele is to apply for registration as a Fair Trade farm, the first such in Levubu, and also for accreditation with GLOBALG.A.P.<sup>36</sup> Fair Trade status takes advantage of the relatively novel status of Ravele as a community-owned enterprise in the high-value export sector, while GLOBALG.A.P. has the potential to secure their profile as a premium brand.

Overall, the partnership between the Ravele communities and their professional farm manager appears to be working well, as the farms have gone from substantial operating losses under SAFM (reportedly in the order of ZAR 3 million per year, or USD 434,000) to modest profit in their first full year of independent operation.<sup>37</sup> Annual profits are projected to reach ZAR 5 million (USD 724,000) within three years and the general manager predicts that just one of the Ravele farms – Appelfontein – alone could soon achieve an annual turnover in excess of this.

### 3.4 Ravele's deal with its farm manager

The emerging relationship between Ravele and their professional farm manager is central to the turn-around strategy outlined above, and provides important lessons that may be applicable to other projects.

As mentioned, the manager is not a shareholder, but a professional manager retained by the operating company (effectively by the Ravele community) to run its farms. Nevertheless, with extensive agricultural and financial experience, he exercises considerable influence as general manager.

Other farm managers in the district are generally remunerated through a mix of salary and profit-related incentives, thereby giving them some stake in the success of the business. The manager's basic salary – which is shared between Ravele and neighbouring Masakona<sup>38</sup> – appears to be somewhat below the going rate and he is

35. Interview with members of Ravele CPA, 17th August 2010.

36. GLOBALG.A.P. (formerly known as EUREPG.A.P) is a private-sector body that sets voluntary standards for the certification of agricultural products around the globe (G.A.P. stands for Good Agricultural Practices).

37. Turnover for Ravele for the year ending February 2010 was ZAR 2.5 million (USD 362,000) and profit was ZAR 409,000 (USD 59,000). The accumulated loss for the company at the end of July 2010 stood at ZAR 3.3 million (USD 478,000), most of which was owed to the Ravele CPA.

38. Originally, during the transition from SAFM, the manager's salary (and his time) was also shared by Tshitwani and Tsivashaula, but this arrangement did not last long after the exit of SAFM.

not at this stage provided with the housing, health insurance and transportation allowances that are the norm within the sector. The most likely explanation for this is the dire financial condition of the farm, coupled with the need to contain the already substantial differential between the general manager and other members of staff.<sup>39</sup> Notably absent from the package is any profit-related incentive, which may relate to the very risky nature of the business in its current form. However, another form of incentive has been agreed upon: the manager rents one farm from the Ravele community (at close to market rates), where he grows macadamias, avocados and bananas, and says that this is what keeps him motivated.<sup>40</sup>

The absence of any share agreement with the farm manager leaves the community, at least on paper, in a stronger position than it was with SAFM, but whether this arrangement gives it all the resources it requires – especially in terms of capital and marketing know-how – remains to be seen. Early indications are promising, however, for reasons largely related to the well-developed and competitive nature of the South African agricultural sector, which allows new entrants to avail of a wide range of processing and marketing channels. It may well be that management expertise – rather than investment partners – is the real key to success in this field.

### 3.5 Concluding comments: Levubu

The restitution process at Levubu has restored large areas of land to its original owners, organised in seven tribal-based communities. The high-value activities based on the land have, however, posed enormous challenges to the new owners, who lack access to capital and technical expertise. Interventions by the state agencies responsible for restitution and post-settlement support led to the consolidation of holdings into large centralised units and the introduction of three 'strategic partners'. Without exception, the communities' experience of strategic partnerships was negative in the extreme: productive capacity on the farms was severely run down, jobs were lost, massive state grants were expended with little or no lasting benefit, material benefits to the members were virtually nil and communities were saddled with large debts and unflattering credit records. While it is difficult to apportion blame for such a catastrophe, there can be little doubt that the communities were poorly served in their choice of strategic partners. Both strategic partners and communities, however, are vocal in their criticisms of the state agencies involved, which imposed an elaborate and untested commercial model, delayed excessively in release of development grants, failed to monitor (or possibly even understand) the disastrous performance of the joint venture companies and the risks this posed for communities.

39. Minutes of the Board of Directors meeting for July 2010 show that some opposition was expressed from within the Ravele community to the manager being granted a five-year contract at this rate, from September 2010 (*Boardpack July 2010*).

40. Interview with Ravele farm manager, 18th August 2010.

The failure of any material benefits to materialise for the majority of community members to date raises serious questions over the entire process and gives rise to social tensions that limit the ability of communities to act effectively. Having made substantial losses in the years following restoration of land, the communities at Levubu are now largely living off their capital assets and, in the process, generating a modest cash income. Whether this will be sufficient to bring the farms back to full productivity and to achieve sustainable growth in the longer term remains to be seen, and will depend on access to both investment capital and technical expertise. Ravele and Masakona communities appear to have turned a corner with the assistance of a dedicated professional manager and strong CPA leadership, but are still in a survival mode and are not yet in a position to provide benefits to their members.

A second example of strategic partnership is presented in the case study of Moletele that follows, which reveals strong similarities but also important differences to the case of Levubu.

## 4. Moletele case study

The Moletele community is a large group of mainly Sepedi (Northern Sotho) speaking people originating in the South African lowveld, in what is today the south-eastern portion of Limpopo province (see Figure 1 above). The community has claimed a vast area of land, in the order of 72,000 hectares, from which they were removed over many decades, between the 1920s and the 1970s, when white farmers were settled in the area.

The area, centred on the small town of Hoedspruit, is today the centre of a large sub-tropical fruit economy, supplied with irrigation water from the Blyde River. Land that is not served by the main pipeline is generally used for game farming, cattle ranching, hunting and wildlife tourism, including some upmarket ranches. The major tourist attractions of the Blyde River Canyon and the Kruger National Park lie immediately to the west and east, respectively, and Mpumalanga province lies to the south.

The South African lowveld – the area below 800m in altitude – is known for its high temperatures and low rainfall. To the west, along the escarpment and the Drakensburg Mountains, mean annual precipitation can exceed 1,000mm but in low lying areas to the east and the west of the escarpment, mean annual precipitation is generally 600mm or less (Raven, 2004: 11). For the Lower Blyde area, around Hoedspruit, the average yearly rainfall is 513mm and the average maximum and minimum temperatures for summer and winter are 30.4°C/19.7°C and 25.3°C/11.5°C. Winter temperatures are relatively mild and crop damage from frost is uncommon.

Prior to the 1930s, African communities and early white pioneers used the lowveld mainly for hunting and cattle grazing. Only with the introduction of DDT to combat the tsetse fly and malaria-bearing mosquitoes in the 1930s and 1940s did permanent commercial crop farming start in the area (Raven, 2004: 13). Production of sub-tropical fruits greatly intensified following the construction of the Blyderivierspoort Dam in 1974, with a capacity of approximately 50 million m<sup>3</sup>, which allowed white farmers, supported by the Apartheid state, to use sophisticated irrigation techniques such as centre pivots, sprinklers, and drip irrigation. Corporate farming enterprises (i.e. large land-holding companies, based outside the area) accumulated large holdings (some in excess of 1,000 hectares), particularly for citrus and mango, but these coexisted with many smaller family farmers (typically on 30-40ha holdings) who concentrated on the production of vegetables for the domestic (South African) market. By the 1990s, the Blyde river irrigation scheme covered an area of approximately 42,366ha (Raven, 2004: 10).

Forced removal of the Moletele people from their ancestral lands began in the 1920s and continued up to the 1970s. Sepedi-speaking people and their chiefs were removed to the ethnic 'homeland' of Lebowa, while Shangaan (Tsonga) speakers

Photo: ©Edward Lahiff



A sign on a Moletele farm.

were moved to the adjoining homeland of Gazankulu (Niehaus, 2005). According to the office of the Regional Land Claims Commissioner for Limpopo, the community were gradually dispossessed of their land rights under a succession of racially motivated laws and policies, including the Group Areas Act, Natives Land Act 1913 and Native Trust and Land Act of 1936, the Stock Limitation Act 1950 and labour tenant legislation:

*The Moletele community enjoyed communal customary rights, which were reduced to beneficiary occupation rights after the arrival of whites. These rights were further eroded to labour tenancy and they were eventually regarded as squatters as defined in the Restitution of Land Rights Act 1994.<sup>41</sup>*

Leaders of the community made various efforts over the years to regain their lands, culminating in the lodgement of numerous claims under the Restitution of Land Rights Act between 1995 and 1998. These were eventually merged into a single Moletele Community Land Claim in 2003. Claims were initially lodged on 28 farms, with 14 more added as part of the investigation process that followed, and amounts to 78,791 hectares in total.

To date, only around 10% of the claimed land has been returned to the community – a total of 7,142 hectares, handed over between September 2006 and April 2009.

41. Government Gazette No. 27470. 'Moletele Tribal Land Claim Acceptance Report'. Republic of South Africa, Pretoria, 15 April 2005.

This land is in four blocks, comprising 42 distinct portions (i.e. separate title deeds) and was purchased for a total price of ZAR 183.2 million (USD 26.5 million), making it already one of the most expensive land restitution cases in South Africa. While most portions were in the range of 20–250ha, a number were far larger, including the farm Eden (658ha); Chester ('remaining extent', 667ha); Scotia (1,268ha); and Richmond (2,434ha). Largely due to its exceptional size, Richmond was also by far the most expensive property, at a purchase price of ZAR 63.9 million (USD 9.2 million).<sup>42</sup>

The restored land has been transferred in freehold title to the Moletele Communal Property Association (CPA), a legal entity formed especially to take transfer of the land on behalf of the claimant community. The CPA was formed in September 2005, with 15 members on the committee representing different residential areas, plus two ex-officio members representing the Traditional Council. Estimates vary as to the size of the claimant community (i.e. the CPA membership): one informant put it at 1,615 claimant families, plus dependents as secondary beneficiaries; others put it at anywhere between 16,000 and 30,000 individuals.<sup>43</sup>

The particular parcels of land that have been transferred to the community to date have largely been determined by the minority of affected white landowners who expressed a willingness to sell their land to the state for restitution purposes, and obtained the price they were asking. This explains the rather scattered pattern of Moletele landholdings at present, but this is set to change once more land is restored. According to community leaders, many landowners in the area remain hostile to the restitution process and are challenging the validity of the claim in the courts, although some feel that this is merely a strategy to drive up the level of compensation.<sup>44</sup>

The main focus of the Moletele claim to date has been on acquiring high-value irrigated land, or land with potential for irrigation, although some dry land outside the irrigation scheme has also been returned to the community. The main demand – at least among the CPA leadership and their business partners – is for community involvement in large-scale commercial farming, as landowners, business partners and employees. The optimism surrounding the initial return of land to the community was captured in the words of the Minister for Agriculture and Land Affairs at the official handover in July 2007:

*This land that we are restoring today has some of the best oranges and mangos this country has ever produced. As from today the people of Moletele are now exporters. You are going to be operating from the well-equipped pack-house that we have included in the purchase of this land. The pack-house is also used for the processing and packaging of atchaar (...).*

42. MCPA Property Portfolio Report, April to June 2010.

43. Regional Land Claims Commissioner Acceptance Report (2004); interviews with MCPA financial advisor and office manager, 11th August 2010.

44. Interview with Moletele financial advisor, 29 November 2010.



*We have also bought two mango drying plants. These will enable the Moletele Community to engage in value-adding processes on their mangos. These farms also produce sweet-corn, seed maize and tomatoes. All of these production processes clearly contribute to the objectives of Accelerated and Shared Growth Initiatives for South Africa (AsgiSA), which include job creation, poverty eradication, Agri processing, improvement of the quality of life for all our people (...).*

*This deal will also accelerate value-adding in the produce coming from this land of milk and honey. This will ensure participation of the Moletele Community in the entire value-chain. These partnerships give credence to economic empowerment because the community will not only receive hand-outs in the form of lease rentals but will be participating in the day-to-day management of the farms.<sup>45</sup>*

As may be seen, the official emphasis was on high-value commercial operations and preservation of existing enterprises. Little or no consideration appears to have been given to subdivision of large farms into smaller 'family farms' or conversion to low-input farming models along the lines currently practiced by many community members in neighbouring communal areas. Indeed, as at Levubu, the restitution process is instead leading to consolidation of already large holdings in the area under the new ownership. A mass return of community members to their ancestral lands has not been (officially) contemplated, although plans are underway to provide housing plots on some of the undeveloped land. This commitment to the preservation of the structure of commercial agriculture in the area on the part of the community is closely aligned to the official state policy towards restitution in Limpopo. No particular policy has been developed (by state or community) towards the large areas of game farms and nature reserves – some containing very high-value lodges and resorts – that also fall within the ambit of the Moletele claim, and this category of land would appear to be less of a priority for all parties involved.<sup>46</sup>

While the community has been pressing for full restoration of all their original land, cash compensation has been agreed for a few relatively small areas of land that have been developed for residential purposes. For example, the Leadwood Wildlife Estate developed by Jordan Developments and managed by Pam Golding Property Group, is described as a 'Big 5' reserve with 500 residential plots for sale. The Regional Land Claims Commissioner plans to compensate the community for the land, and the developer is also expected to provide two plots and ZAR 3 million (USD 434,000) in cash to the community.<sup>47</sup> The CPA expects to receive another ZAR 2.3 million (USD 333,000) in compensation for residential land at Raptor's View.

Interviews with community members and local officials, however, revealed a widespread belief that, having spent substantial sums on their claim so far, the state

45. Speech for the land handover celebration for the Moletele community claim delivered by the Minister for Agriculture and Land Affairs Ms Lulama Xingwana, Limpopo. 1 July 2007. South African Government Information. <http://www.info.gov.za/speeches/2007/07071011451003.htm>

46. Interview with MCPA Chairperson 12 August 2010.

47. Interview with MCPA financial advisor 11 August 2010; see also *Sunday Times* (South Africa) 10 April 2005, 'Property owners told to pay for land claims' (article by Preggs Govender).

has now lost interest and, more importantly, has run out of funds to take the process any further.<sup>48</sup> As with other aspects of the Moletele claim (and others in the province), community members complained of a lack of communication from the office of the Regional Land Claims Commissioner.

#### **4.1 Background to the joint ventures at Moletele**

According to various informants at Moletele, the original vision for joint ventures came from the community and certain white landowners, who shared concerns about the scale of the proposed land transfer, the ability of the community to cope with its new responsibilities and the potential impact on the local economy. Even before the claims were finalised, community leaders, landowners and local public representatives were discussing possible collaboration through the local forum called the Moletele-Hoedspruit Land Initiative.<sup>49</sup> The community members reported that they were influenced by the reported problems on a number of other high-profile restitution projects in the region, notably on the nearby Lisbon citrus and mango estate which collapsed in 2001 with losses reportedly as high as ZAR 90 million (USD 13 million). According to the Chair of the CPA, 'we learned lessons from other (collapsed) claims, and formed a task team with the willing sellers'.

Community leaders were adamant that, from the outset, they preferred a mix of business models and partners: 'We didn't put all our eggs in one basket' said one. The Moletele CPA had a strong preference for involving the former owners as business partners, as they felt they knew them and could trust them. Community leaders said they had concerns, however, about the degree of transformation that would actually occur on the farms if the former owners remained in charge, and persuading former owners to accept community members as part of a management team was particularly challenging.<sup>50</sup>

The state agencies involved, which were then heavily promoting the concept of strategic partnership, insisted that the former landowners could not be the automatic choice as strategic partners at Moletele and called for expressions of interest from other parties. After a tender and screening process, three groups of local farm owners (or former owners) emerged as strategic partners for the Moletele CPA: Strategic Farm Management (Pty) Ltd, Chestnet (Pty) Ltd and African Realty Trust; when further land was transferred in 2008, the Boyes Group (who were already active in Levubu and other restitution cases) became a fourth strategic partner. A lengthy negotiation process ensued, supported by the Business Trust-MABEDI and the European Union-funded Limpopo Local Economic Development programme, at the end of which shareholding and lease agreements were signed between the CPA and the respective strategic partners.

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48. See *Mail & Guardian* 5 July 2010: 'Land reform beneficiaries owed R3.4bn by government'.

49. Interview with MCPA office manager, 11 August 2010.

50. Interview with members of MCPA 12 August 2010.

In addition to the land under the various commercial partnerships, a number of smaller land portions, which the community considered too small to justify additional joint ventures, have been leased to neighbouring white farmers. One remaining property, Scotia farm, a former game farm without irrigation, was retained for use by the community mainly as communal grazing for its cattle and is where the CPA office is located.<sup>51</sup> The farmhouse is used for adult education classes in computers and other topics, and the land is earmarked for development of low-cost housing for community members.

As in the case of Levubu, there have been a number of false starts, and the four commercial partnerships differ greatly in their level of organisation and degree of success to date. The community stood to benefit, in theory, from both rental and dividend income through the joint ventures, as well as preferential employment and various training opportunities. As in other claims, it was originally intended that workers on the farms would be included as shareholders in the strategic partnerships. Indeed, at the official handover of title deeds in July 2007, the Minister of Land Affairs specifically stated that 2% of shares would be allocated to 'the workers'. It would appear, however, that the CPA and the commercial partners opposed to this, and no allocation was in fact made to workers. Instead, it was agreed that existing workers would all be retained and only replaced by Moletele community members on the basis of natural attrition.<sup>52</sup>

As at Levubu, various state grants were due to be paid to the Moletele CPA, and failure to transfer these on a timely basis is widely seen as a major reason for the collapse of some of the partnerships and the ongoing difficulties of others (see below). These grants comprised Restitution Discretionary Grants valued at ZAR 4.8 million (USD 695,000) and Settlement Planning Grants valued at ZAR 2.3 million (USD 333,000). More importantly, however, was the Development Assistance Grant, which (to date) is valued at ZAR 35.2 million (USD 5.1 million). This is calculated at 25% of the value (purchase price) of the restored land but, as far as could be ascertained, none of this has been handed over to date.

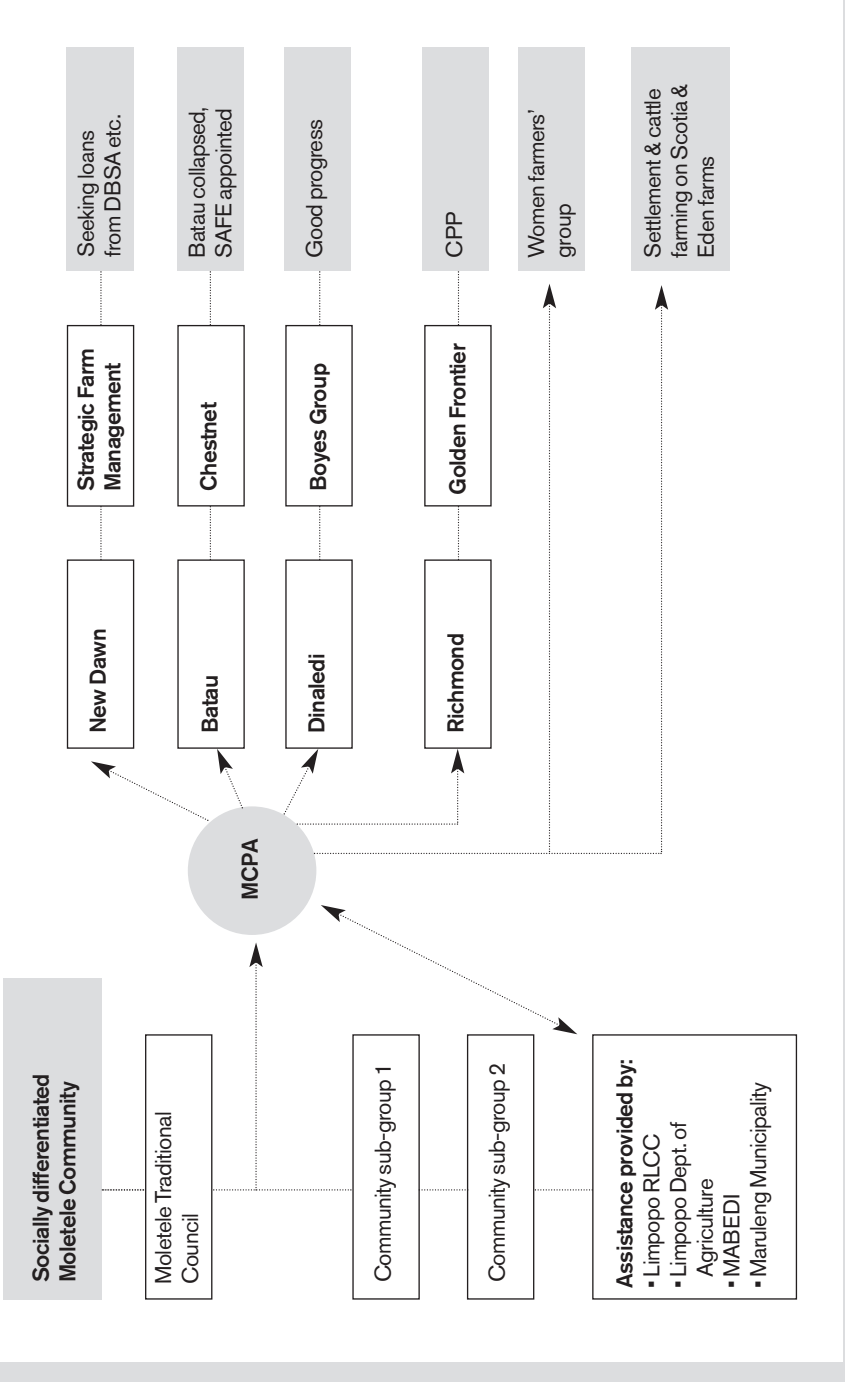
While the terms 'strategic partnership' and 'joint venture' are widely used at Moletele, informants also used the term 'community-private partnership' (CPP) to refer to some of their more recent ventures. The significance of these terms, and other details of the four main ventures at Moletele, are discussed below.

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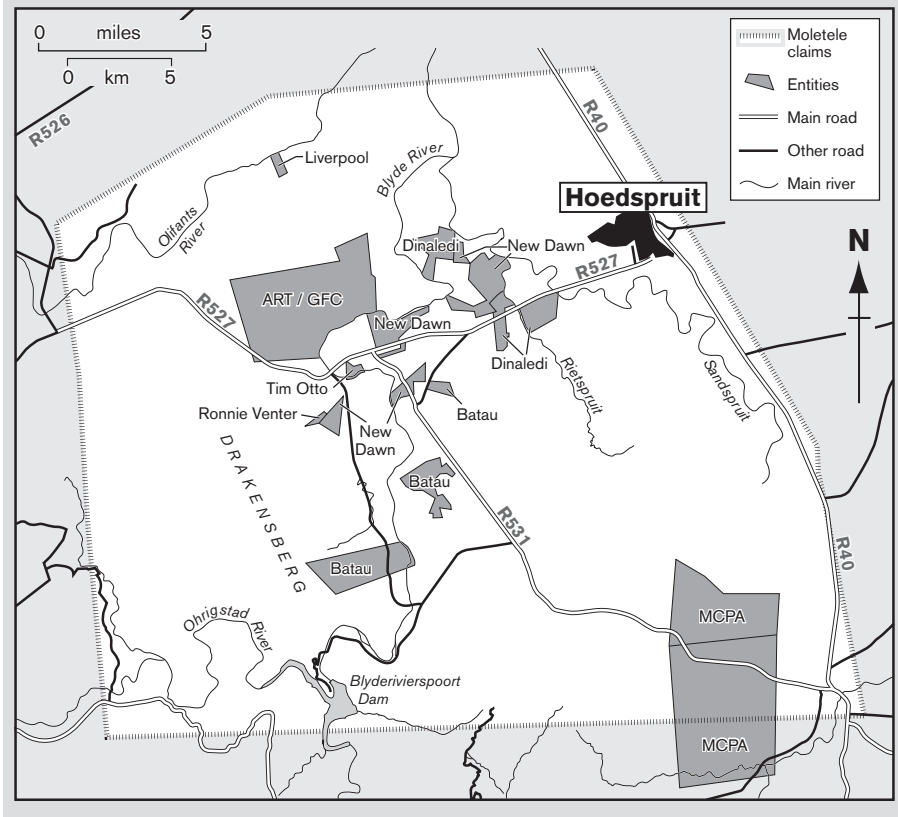
51. MCPA *Property Portfolio Report*, June 2010.

52. Interview with MCPA Chairperson, 12th August 2010.

Figure 4. Management structures and interest groups on Moletele land



**Figure 5. Moletele land claims**



## 4.2 Details of the Moletele joint ventures

As noted above, between 2007 and 2010 four large agricultural enterprises were created on the 47 restored properties, referred to here (and generally in the locality) as New Dawn, Batau, Dinaledi and Richmond. This is illustrated in Figures 4-5.

The following table shows the main current, or planned, land uses associated with these enterprises. Together, these activities constitute slightly less than half (48.2%) of the total land restored to date: the rest comprises approximately 2,000ha of land reserved for direct use by the community (communal grazing on the farms Scotia and Eden) and approximately 1,600ha of un-irrigated land on Richmond (albeit with potential for irrigation if the Blyde irrigation scheme is expanded in the coming years, as expected), along with a smaller area (150ha) that is leased directly by the CPA to a number of neighbouring farmers (i.e. outside of the joint ventures).

**Table 3. Agricultural land use for the four partnerships on Moletele CPA land**

Entity	Agricultural land use (ha)									
	<i>Current</i>						<i>Planned</i>		<i>Sub-leases</i>	<i>Total</i>
	Citrus	Mango	Litchi	Guava	Papaya	Grazing	Type			
New Dawn	140	246	-	7	3	326	Citrus	249	79	1,050
Batau / Bono SAFE	72	62	5	-	-	669	-	-	13	821
Dinaledi	320	-	-	-	-	-	Citrus	310	116	746
Richmond	515	70	-	-	-	-	Sugar cane	240	-	825
<b>Total</b>	<b>1,047</b>	<b>378</b>	<b>5</b>	<b>7</b>	<b>3</b>	<b>995</b>		<b>799</b>	<b>208</b>	<b>3,442</b>

Source: Moletele CPA, Property Portfolio Report, June 2010.

## New Dawn

New Dawn Farming Enterprise (Pty) Ltd was formed in 2008 as a joint venture between the Moletele CPA and Strategic Farm Management (SFM), a company formed specifically for this purpose by a group of local landowners who were bought out as part of the restitution process. In its original form, New Dawn adhered closely to the general model of strategic partnership then being promoted by the office of the Regional Land Claims Commissioner and the Limpopo Department of Agriculture; over time, however, it has suffered a number of setbacks which have forced departures from the original model.

This enterprise groups together citrus and mango production on 18 of the farms transferred in the first batch (2006-07). The total land area is approximately 1,100 hectares, which was purchased for ZAR 44 million (USD 6.4 million). The productive area (1,050ha) is planted with approximately 246ha of mango, 140ha of citrus, 7ha of guava and 3ha of papaya, with 326ha used for extensive grazing. In addition, there are approximately 50ha of non-agricultural land (roads, houses, sheds, a pack-house and processing plants). The property was purchased along with a pack-house, a mango *achar* processing plant and two mango drying plants.

The Moletele CPA owns 52% of the shares in New Dawn Farming, and SFM owns the remaining 48%. The Board of Directors consists of three representatives from the Moletele CPA, three from SFM and one non-voting representative of the

Limpopo Department of Agriculture. The managing director of the company is one of the partners in SFM and is responsible for day-to-day management of the enterprise.

The agreement between the partners is for a period of 15 years. Management of the joint venture is in the hands of SFM, for which it should (according to the management contract) be paid 5% of the gross turnover of the operating company in the first year; this percentage will decrease by 0.5% each year thereafter until a minimum of 2% is reached. It was further agreed that Moletele CPA, as the landowner, would be paid rent of 1% of the purchase price of the land and 2.5% of the value of the water rights. Due to ongoing financial difficulties, little of the money owed has actually been paid over to the community to date.

The citrus and mango grown on these farms is processed on the farm and marketed through an export company owned by the strategic partners called Alliance Fruit.<sup>53</sup> This company has been the biggest supplier of mangos to Marks & Spencer in the UK for the last ten years. Under the strategic partnership agreement, New Dawn (i.e. the joint venture, rather than the community) acquired 15% shares in Alliance Fruit which was intended to give it control over the marketing process and provide the community with prompt payments and reliable accounts. The pack-house complies with HACCP and GLOBALG.A.P. standards.<sup>54</sup>

The farms employ 69 permanent workers and about 117 seasonal workers, with potential to increase to about 148 permanent and 323 seasonal workers once proposed additional developments have been implemented.

Despite these valuable assets, and some continuity in the person of the current managing director, New Dawn has experienced ongoing financial and operational problems. These can be traced back to the non-payment of most of the Restitution Discretionary Grant promised by the Commission on Restitution of Land Rights, and ongoing difficulties in securing alternative capital. The total grant amount due to the community (intended for investment in the joint venture) is ZAR 11 million (USD 1.6 million) but, to date, only ZAR 1.8 million (USD 260,000) has been paid over, which was used for the purchase of pack-house equipment. This one-off payment was made in 2009, three years after the land was transferred to the community and nearly a year after the joint venture was formed. By August 2009, SFM had already invested ZAR 1.7 million (USD 250,000) in the joint venture in order to maintain production on the farm, and contributed a further ZAR 624,000 (USD 90,200) in the form of movable assets.<sup>55</sup>

To date, New Dawn has not made a profit and so no dividend has been paid out to the community. As with other farms in Moletele and Levubu, the New Dawn properties were not handed over as 'going concerns': rather, the former enterprises

53. Alliance Fruit is described as a producer-owned export group in the citrus and mango sectors, founded in 2003 (<http://www.alliancefruit.co.za/>).

54. Hazard Analysis Critical Control Point (HACCP) accreditation focuses on hygiene of the total fruit handling process, including machinery, personnel and buildings.

55. Interview with managing director, New Dawn, 7th July 2010.



were wound down by the former owners and had to be restarted by the new owners and their commercial partners. Partners were under pressure from the community to maintain the existing labour force throughout the period of transition, to replace equipment removed by the former owners and to make good the lack of maintenance (including replanting of orchards) that was a common feature on most of these properties during the prolonged process of land purchase and transfer. Production collapsed, or greatly declined on many of the farms during this time and, as a result, the farms were run at a considerable loss for an extended period.

Under the strategic partnership agreement, New Dawn is supposed to pay an annual rent to the Moletele CPA of ZAR 630,000 (USD 91,000) per annum, as long as all the anticipated funding and conditions were in place. No rental was paid in 2008-2009 (the first year of formal partnership) – this money is still owed to the CPA – but for 2009-2010, New Dawn paid approximately ZAR 381,000 (USD 55,000) in rent to the Moletele CPA. At the same time, the management fee due to SFM for managing the farm has also gone unpaid during this period, so both partners are effectively running at a substantial loss.

In the light of the non-transfer of grants from the state agencies, New Dawn has sought alternative sources of capital, in particular the possibility of a loan from the state-owned Development Bank of Southern Africa (DBSA). To this end, a detailed feasibility plan<sup>56</sup> was drawn up by the strategic partner, which included the following elements:

- citrus expansion: establishment of 312ha new citrus orchards
- rehabilitation and upgrading of irrigation systems on current citrus orchards
- top-working of 80ha current mango varieties
- upgrading of irrigation systems on mango orchards
- expansion of existing pack-house facility
- upgrading of *achar* plant
- upgrading of mango de-hydration plant
- new tractors, implements and equipment
- upgrading of infrastructure and buildings
- equipment for the manufacturing of compost.

The total capital requirement for the above was estimated at ZAR 35 million (USD 5.1 million).

By August 2010, it appeared that a loan from the DBSA had been agreed in principle, but negotiations were ongoing around the guarantees to be provided by the strategic partners. According to the managing director of New Dawn, the conditions being demanded by the bank were onerous – including a substantial financial bond payable by the strategic partner pledging not to leave the farm for a period of 15 years, or pledging the lease agreement with the community as collateral. In either case, the strategic partner would be exposed to high (and potentially

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56. Feasibility Study: New Dawn Farming Enterprise Project, August 2008 (unpublished document).

unacceptable) levels of risk. An alternative suggestion that the CPA directors would enter into financial guarantees in a personal capacity was also considered unacceptable and inappropriate. Mortgaging of the land is explicitly forbidden under the terms of the restitution agreement, so the more conventional means of accessing credit are also unavailable. All of this suggests that financial institutions – including those with an explicit ‘development’ focus such as the DBSA – as well as actors in the wider land reform sector have yet to devise workable means of providing credit (and managing risk) for land reform ventures of this type.

### **Batau**

Like New Dawn, Batau Farming Enterprise was a joint venture (along the standard lines) created in 2008 between the Moletele CPA and Chestnet (Pty) Ltd, a group of landowners who were bought out as part of the restitution process. The land consists of 975ha, previously divided into six farms, which was purchased in 2006 for ZAR 20.6 million (USD 3 million). The shareholder agreement in this partnership stipulates a term of 15 years with the Moletele CPA holding 52% of the shares in the company and Chestnet holding 48%.<sup>57</sup> The joint venture was engaged in the production of mango, citrus and vegetable crops such as maize, cabbage, tomatoes and peppers, mainly for the local market.

Productive land consists of 62 hectares planted to mango (approximately 45,000 trees), 72ha of citrus (made up of 24ha of grapefruit, 12ha of lemons and 36ha of oranges – approximately 32,000 trees in total) and 4.75ha of litchis. Vegetables are grown under shade netting, including 2.25ha of peppers and 5.75ha of tomatoes.

Given the failure of the promised grant funding to materialise, this joint venture faced problems from the outset. According to community representatives, the strategic partners were unable (or unwilling) to provide the necessary operating and development capital themselves, and nor were they successful in obtaining capital from the banks.<sup>58</sup> Other difficulties faced by this venture, according to community representatives, were the lack of a pack-house on the farm, making it dependent on external facilities for marketing of its crops, the relatively small areas under citrus, considerable distances between the portions of land making up the farm, and a top-heavy management structure (with four former owners, all drawing salaries as managers), which impacted negatively on cash flow.

By mid-2010, Batau was no longer able to pay its creditors and was facing liquidation, and production on the farms effectively ceased. Although it was widely assumed among community leaders and government officials that strategic partners would provide working capital, it is clear that some partners were either unable or unwilling to do so. In July 2010, the community entered into a temporary caretaker agreement with Bono Holdings to manage the farm and save the citrus harvest.

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57. As with other joint ventures in the region, initial proposals to provide some shareholding specifically for workers (2% in this case) did not materialise.

58. Interview with MCPA members, 11th August 2010.

Bono Holdings is a management and empowerment company owned by SAFE Farm Ventures (South African Fruit Exporters) and a black South African entrepreneur. It operates a number of agricultural joint ventures with communities throughout South Africa. SAFE has a global customer network and plays an important role in the total fruit export from South Africa and Zimbabwe. Having paid no rent in 2008 or 2009, the Batau farms contributed a total of ZAR 196,000 (USD 28,300) to the CPA in 2010, but this was well below what was expected. No dividends have been paid out since the land was transferred.

By August 2010, the community was contemplating a long-term lease with Bono which, it hoped, would be structured as a community-private partnership (see below).<sup>59</sup> Under the proposed agreement, rental would comprise both fixed and variable components, the later based on profitability, and the company would be required to give certain assurances in terms of employment and training of community members.

## Richmond

Richmond farm has an area of 2,434ha and was purchased for ZAR 63.9 million (USD 9.2 million) in April 2009 from African Realty Trust (ART, a group of landowners). Unlike other farming operations at Moletele, Richmond comprises just a single portion of land, on one title deed. It is considered to be well equipped, with its own pack-house on site and a large area (over 500ha) under established citrus production.

At the time of land transfer, ART entered into a joint venture agreement with the Moletele community, reportedly at the behest of the provincial department of agriculture, but this lasted only six months (April to October 2009). As with the other joint ventures at Moletele, the joint venture company did not receive the expected development grants and, according to community informants, the farm deteriorated to such an extent that the partnership was terminated. Production virtually collapsed except for juicing of oranges (i.e. lower grade fruit). At this point, the farm then reportedly required an injection of ZAR 500,000 (USD 72,400) to restore it to production. The community subsequently entered into a temporary agreement with Golden Frontier Citrus (GFC)<sup>60</sup> to manage the farm between October 2009 and June 2010, at which point a lease was signed with GFC.<sup>61</sup>

GFC is a citrus production company, created as a black-empowerment venture by TSB Sugar<sup>62</sup> and the state-owned Industrial Development Corporation (IDC). According to community representatives, GFC came with a comprehensive turnaround strategy – described as ‘a mammoth task’ – but the farm was

59. Interview with MCPA financial advisor, 12th August 2010.

60. See [http://www.tsb.co.za/the\\_company/citrus\\_holdings/golden\\_frontiers\\_citrus/](http://www.tsb.co.za/the_company/citrus_holdings/golden_frontiers_citrus/)

61. Interview with MCPA Chairperson, 3rd November 2010.

62. TSB Sugar (formerly Transvaal Sugar Board) is a subsidiary of Remgro (formerly Rembrandt), a diversified company listed on the Johannesburg Securities Exchange and based at Malelane in Mpumalanga. Its core business activity is the production of refined and raw sugar that is marketed either nationally, under the Selati brand name, or exported.

subsequently said to be greatly recovered.<sup>63</sup> GFC first entered on a short-term lease basis but this was subsequently converted into a community-private partnership (CPP) on a 20-year lease – the longest of any agreement at Moletete or Levubu. GFC was also seen as having the advantage of access to substantial capital of its own, as part of a large conglomerate (and in contrast to the former local landowners who were the strategic partners on the other joint ventures).

No dividends were paid to the community under the partnership with ART in 2009 but an amount of ZAR 611,000 (USD 88,400) was paid to the CPA in rent. Since the arrival of GFC, a total of ZAR 954,000 (USD 138,000) in rent has been transferred to the CPA, making this the highest contribution from any enterprise to date.<sup>64</sup>

Much of Richmond is currently uncultivated but could be used for sugar cane if the anticipated expansion of the Blyde irrigation schemes goes ahead.<sup>65</sup> There has been much speculation about a large biofuel plant to be built in the Hoedspruit area. The state owned Industrial Development Corporation and Central Energy Fund are reportedly interested in biofuel capacity in the area, and various feasibility studies have been undertaken. Opposition to this scale of industrial development has been expressed by tourism and conservation interests in the Hoedspruit area, but it appears that some compromise is likely in order to keep developments away from prime tourist attractions and lodges.

By August 2010, efforts were underway to extend the citrus production on another 115ha of land, and a further 240ha of land has been earmarked for sugar cane plantations with a view to production of ethanol. This would be a logical area of expansion for Golden Frontier Citrus, given its close ties to TSB Sugar. It is estimated that production of sugar for biofuel on Richmond could lead to the employment (direct and indirect) of up to 12,000 workers, which would include out-growers in the neighbouring communities.<sup>66</sup>

## **Dinaledi**

Dinaledi is a partnership between the Moletete CPA and the Boyes Group, the same people who were behind the collapsed SAFM ventures at Levubu. The land in question comprises 746 hectares in five portions, which were purchased between November 2007 and October 2008 for a total price of ZAR 31.7 million (USD 4.6 million). The farm is engaged almost exclusively in citrus production, with substantial orchards of oranges, grapefruit and lemons. Citrus is exported to Canada, the EU, Russia, the Middle East, Japan and Mauritius. The operation provides seasonal employment for some 450 workers.

63. Interview with MCPA Chairperson, 3rd November 2010.

64. Moletete CPA Income Statement, June 2010.

65. Programme for Basic Energy and Conservation (ProBec), *Biofuel Newsletter*, 18th July 2009.

66. Interview with MCPA financial advisor, 29th November 2010.

No development grants have been received by this partnership to date but, according to community informants, Boyes Group have been able to invest substantial amounts in the project, either from their own resources or commercial credit that they have raised.<sup>67</sup> To date, capital has been invested in a new pack-house and some expansion of orchards. Because the Moletele community was not in a position to match the investment provided by Boyes Group, the pack-house, although located on Moletele land, is run as a private venture by Boyes group, not as part of the joint venture. This was a source of concern to some community representatives.<sup>68</sup>

Ownership of the Dinaledi joint venture was described as 50:50 partnership between the CPA and the Boyes Group. According to community informants, granting the commercial partner a full half-share (as opposed to the 48% minority share more widely applied) was necessary in order to allow the Boyes Group to engage effectively with financial institutions and be able to make day-to-day-decisions on their own, without having to consult a majority shareholder.<sup>69</sup> Boyes is seen as an attractive partner as the group had its own finance and was not dependent on cash inputs from either the community or state agencies. The biggest factor for the relative success of this partnership, it was reported, was the large contiguous area under citrus.

The CPA representatives on the Dinaledi board explained the reasons for selecting this model to the community as a need for long-term investment that would not pay out dividends in the short term.<sup>70</sup> They used the example of the Royal Bafokeng Nation, a tribe in North-West province that receives vast income from platinum deposits on its land and has invested in large infrastructure projects and other ventures designed to yield a sustainable income for the tribe over the longer term.

In 2009-2010, Dinaledi paid a total of ZAR 622,000 (USD 90,000) in rent to the CPA,<sup>71</sup> making it the second biggest contributor to the community, and was described by the CPA leaders as the most consistent payer of rent to the community. As with the other farms, annual rent is set at 1.25 % of the land value at the time of transfer (ZAR 31.7 million, equivalent to approximately USD 4.6 million). Some disquiet was expressed by community members, however, that this income was being held centrally by the CPA committee and no decision had yet been made on how (or whether) to pass it on to ordinary members.<sup>72</sup> According to community leaders, the Dinaledi partnership has also shown a strong commitment to skills development and training. The Boyes group donated 16 computers for basic computer literacy training of young people in the Moletele community. The training courses run over ten days and trainees receive a certificate of attendance upon completion. Learners are also offered free transport to the training centre situated at

67. Interview with MCPA members, 11th August 2010.

68. Interview with MCPA members, 9th July 2010.

69. Interview with MCPA members, 11th August 2010.

70. Interview with MCPA representatives, 12th August 2010.

71. Moletele CPA *Income Statement* 2009-10.

72. Interview with MCPA members, 9th July 2010.

Scotia farm where the MCPA based their offices. Additionally, the Boyes group has invested money to improve the CPA offices which is now boasting a few fully equipped offices, a reception area and a boardroom.

### **4.3 Concluding remarks: Moletele**

Moletele is a vast and complex restitution case, although only one-tenth of the total land under claim has been transferred to date. Budgetary and other constraints on the part of the relevant state agencies have raised doubts about how much more land will eventually be restored to the community. Initial experiments with joint ventures involving former landowners, in particular, gave rise to major difficulties, especially around access to working capital, with two out of three collapsing. The fourth venture, with the Boyes group – a larger commercial company – seems to have done somewhat better. Unlike the situation at Levubu, where development grants were used up and communities were left with large debts, the particular problem at Moletele is that the bulk of grants were never actually provided by the state.<sup>73</sup> This has led to the negotiation of new community-private partnerships with better-resourced commercial partners such as Golden Frontier Citrus and Bono-SAFE.

Granting exclusive control of commercial operations to the external partners makes such deals more attractive to them and, most importantly, makes the ventures more acceptable in the eyes of the banks. From the perspective of the community leadership, participation in all aspects of commercial operations remains the ideal, but there is a growing awareness that the community is not well prepared for this role and that full joint ventures may not actually be workable under current conditions. The hope remains that some benefits over and above annual rentals, particularly in the form of employment and training opportunities, can be obtained under the CPP model, while also preparing the community for an expanded business role in the future, but this is no longer central to the deal. While profitability and the need for investment are uppermost in the minds of community leaders and their business partners, the ordinary membership is undoubtedly more concerned with the delays in distributing any material benefits among the community.<sup>74</sup> Income accruing to the CPA has been modest to date, but little attention appears to have been paid to how and when this can be shared with the membership.

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73. See Mail & Guardian 5th July 2010: 'Land reform beneficiaries owed R3.4bn by government'.

74. Interview with MCPA members, 12th August 2010.

## 5. Analysis and discussion

Strategic partnerships with commercial operators have been widely promoted as a means of maintaining productivity and facilitating access to high-value markets for South African communities under the restitution programme. This in turn is expected to maximise benefits to community members while preserving valuable assets and growing the rural economy. The cases of Levubu and Moletele described here suggest that the experience to date is not meeting these expectations and is highly problematic in economic, social and political terms.

In this section we attempt to analyse the findings of the case studies under a number of key headings, before reaching some general conclusions and policy recommendations.

### 5.1 The strategic partnership model

In all the communities consulted, the initial preference (at least amongst the leadership) was for a comprehensive joint venture arrangement that would make maximum use of the returned land. The joint venture model is defended by community leaders at both Levubu and Moletele (but not in general by their business partners) as having the potential to involve the communities in all aspects of agriculture, maximise benefits to the community in terms of income, jobs and management skills, while preparing them for the eventual take-over of the enterprises after 10 or 15 years. There can be little doubt, however, that this preference was greatly influenced by the state agencies responsible for restitution, especially as the restoration of land and pay-out of development grants was effectively made conditional upon acceptance of this model. It is also questionable to what extent this model ever enjoyed the support of the general membership of the communities, some of whom would have preferred direct access to land either for residential purposes or for agricultural production on their own account. Also questionable, in the light of experience, is the extent to which state officials understood the model that they were promoting, and their competence in terms of both direct participation in the process (i.e. provision of funding) and ensuring compliance with contractual agreements by the various groups concerned.

While all parties consulted across all ventures at Levubu and Moletele had a litany of problems and complaints, three main issues stand out as barriers to the success of joint ventures. First is their sheer complexity, and the challenge of involving relatively inexperienced community representatives in complex management issues: this, coupled with the need to involve hundreds or even thousands of community members in key decisions – particularly in the absence of tangible benefits – has, by all accounts, rendered the model virtually unworkable.

Second is the failure (whether due to inability or unwillingness) of the commercial partners to access sufficient working and investment capital. This is related to the



complex and experimental nature of the strategic partner model which, along with their general failure to service their loans, has made the enterprises unattractive to commercial lenders. Implicit in the original vision of strategic partnerships, as espoused by the state agencies and echoed by most community leaders, was the assumption that strategic partners had both the necessary technical expertise to manage the enterprises and the ability to *independently* access capital – that is, to use their own resources or guarantees, and without putting community members or their property at risk. In retrospect, it can be said that such an assumption was naive with respect to the financial viability of the new enterprises and their acceptability to commercial banks, in particular, but also the supposed willingness of partners to put their own resources at risk. It does appear, however, that the assumptions about the ability of the strategic partner to provide working capital diminished over time, to the point where all parties – communities, state agencies and the commercial partners themselves – accepted that access to capital was dependent on provision of substantial grants from the state.

The third main obstacle to success of the joint ventures is, therefore, the failure of such grants to materialise, or to materialise in time: this hampered farming operations from the very start, exacerbated the lack of creditworthiness of the operations and undoubtedly led to the failure of many of the ventures. So, while it would be incorrect to suggest that finance was the only challenge facing these ventures, financial difficulties – including shortages of working capital and disputes around responsibility for provision of capital – were certainly the major concern raised by all parties involved in this study, well ahead of other matters such as farming operations more generally or coordination across large community groups.

With the collapse or near-collapse of most of the initial joint ventures, communities and partners started exploring various alternatives, albeit under considerable financial difficulties and growing scepticism on the part of many community members. In the case of the Ravele community at Levubu, this has led to a partnership with a single individual in the role of expert-manager, who is remunerated by means of salary and access to high-value agricultural land. Ownership – of both fixed property and the business venture – now rests firmly with the community, as does commercial risk. Whether this business model is more successful than the former joint venture remains to be seen, but the early evidence looks promising. At Moletele, the community is moving away from joint ventures towards what it calls a community-private partnership (CPP), in response to financial and other difficulties experienced during the first years.

The concept of community-private partnership entails a lease on the land accompanied by some added social benefits, such as management training and mentoring for community members. Rental is set as a combination of a fixed amount plus a variable amount based on operating profits, over a 20-year term.<sup>75</sup> A CPP differs from a joint venture in that the commercial partner retains full ownership of the

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75. Interview with MCPA Chairperson, 3rd November 2010.

commercial venture and of any capital it invests in the venture, without the requirement for the community to match this investment. It effectively gives the commercial partner a free hand when attempting to raise capital from the market, and complete control over commercial operations, within the terms of the general agreement with the community. Our research at Moletele suggests that commercial partners are more willing to invest under these conditions than under a full strategic partnership/joint venture, despite assuming all the risk, and believe that they will also be more likely to obtain bank credit.

From the community's perspective, the CPP model is easier to manage as they do not have to sit on a board of directors or participate directly in management decision. This, according to one informant, would avoid the problem of inequality (in terms of knowledge and expertise) between the two sets of directors within a joint venture.<sup>76</sup> This is particularly important in the case of Moletele where the CPA is involved simultaneously in multiple partnerships. Although this arrangement may, on paper, be less remunerative than the strategic partnership/joint venture model, it is, from the perspective of the community, more than off-set by the increased chance of commercial success for the venture. Such success is essential to the sustainability of rental income and employment, including of managers recruited from the community. It also does not preclude the community from becoming involved in downstream activities, either on its own or in alliance with one of its existing partners.

A major difference between current efforts to (re)negotiate partnerships and the original round of agreements entered into immediately following the transfers of land is the absence of grant funding to the communities – funding appears to have been spent with little lasting benefit to local communities in the case of Levubu, and seemingly delayed indefinitely in the case of Moletele. The lack of support from state agencies (especially the Department of Rural Development and Land Reform, the office of the Regional Land Claims Commissioner and the Limpopo Department of Agriculture) in this round of restructuring contrasts starkly with the strong interventions made by these agencies to impose their original vision of strategic partnerships based on joint ventures. The belated (and still tentative) involvement of additional state agencies, such as the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA), with relevant business and financial expertise is, however, a positive development, and should have been considered much earlier.

## 5.2 Benefits to the community

Alongside the major commercial difficulties being experienced by all the projects discussed here, the most obvious weakness is the lack of material benefits reaching the great majority of community members. Twelve years after the lodgement of their restitution claims, and five years after the return of the first lands, most households

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76. Interview with MCPA financial advisor, 29th November 2010.

have yet to see any positive impact on their livelihood. This is a source of great frustration for many, given the expectations that were raised by the restoration of the land and the establishment of commercial partnerships with private-sector operators, the huge sums of public money consumed and the extensive participation by community members over many years in discussions and planning exercises.

The limited revenues that have been received by CPAs to date have been in form of land rentals, which have been intermittent and generally well below the expected rates. None of the enterprises studied have yet made a profit – indeed, substantial losses have been the norm – and so dividends, expected by many to be the main form of revenue from the strategic partnerships, have not materialised.

Considerable confusion exists around what has happened to the limited revenues received by the CPAs, although it is clear that none has been paid out directly, in cash or kind, to the general membership. Community leaders were generally found not to be in favour of paying out cash benefits to members (and under the prevailing financial conditions this would have been very difficult), and were actively involved in dampening down popular expectations, but did acknowledge that people could not wait indefinitely to see some benefits from their 'successful' restitution claim. Some of the income accruing to the CPAs has been used to fund day-to-day CPA activities, including paying for office overheads, reimbursing the expenses of committee members, transporting community members to meetings and, at least in the case of Moletele, employing one CPA committee member on a full-time basis. Other revenue paid – or owed – to the CPAs has been reinvested in farming activities, or used to pay debts owed to banks and other suppliers. At Dinaledi, CPA funds were reportedly invested in a new pack-house, while at Ravele funds were loaned by the CPA to the commercial farming operation for general operating expenses. All of the communities consulted at Levubu were in the process of paying off substantial bank loans incurred by the failed strategic partnerships. In very few cases were 'public goods' provided to community members. Exceptions included the construction of a tribal office at Shigalo, and the provision of computer training for young people at Moletele. Many communities were, however, using former farm houses for CPA meetings.

Given the many problems being experienced by the centralised joint venture operations, it is perhaps surprising that so few opportunities were being provided for individuals or small groups to start their own enterprises on the restored land. This can be related to efforts by all the main parties – the state, CPA committees and their commercial partners – to control all activities centrally through the CPA and to maintain the integrity of the established commercial farming operations. Any attempt to provide economic opportunities to individuals could also exacerbate inequalities within the communities, as such opportunities could not be distributed evenly among the membership and not all members would be able or willing to avail of them anyway. At Moletele, for example, it was reported that efforts had been made to contract-out transportation and pruning services to community members, but no tenders were forthcoming.

The return of communities to their ancestral land – whether for residential purposes or small-scale farming – might be expected as one of the primary benefits of land restoration but, as discussed above, this is seen as incompatible with the preservation of large-scale commercial agriculture and has been actively opposed by the leading actors involved in the process. No examples could be found at Levubu of members acquiring plots for their own use, despite the availability of considerable unused areas of land. The one exception was a tribal chief who had occupied an existing farmhouse. At Moletele, a handful of small agricultural plots (including plots under shade-netting) had been allocated for citrus and vegetable production by community members, at Batau (on the farm Antioch) and on New Dawn but these were seen largely as ‘nursery’ projects where specific skills could be acquired, rather than as an alternative model of land use which could benefit the wider community membership.

At Moletele, but not at Levubu, there has been extensive discussion around the building of new housing settlements, with a proposal to establish up to 500 houses on the un-irrigated lands of Scotia farm. The CPA was reportedly in discussion with the provincial Department of Housing and the local municipality with a view to providing low-cost (‘RDP’<sup>77</sup>) housing for its members. This would undoubtedly meet some of the demand for direct benefits from community members, although contributing their own land in order to acquire public housing to which they might already be entitled is, again, a rather limited form of benefit. Plans are also underway to establish intensive poultry and piggery projects, and possibly a cattle feedlot, on the site, with support from the provincial Department of Agriculture.

### 5.3 Training and mentorship

Training and mentorship for community members was a key element within the original vision for strategic partnerships in land reform and continues to feature in discussions around new variations on the business model at both Moletele and Levubu. This is not surprising given the pressing need for skills development within the community and the desire that community members would, in time, take over the running of the high-value commercial operations on the restored farms.

The appointment of community members to supervisory and management positions within the new enterprises, and the provision of relevant training has occurred to a limited extent (although not on all the farms), but is constrained by the ongoing financial problems facing the enterprises. At New Dawn, for example, trainee managers have been appointed on short-term contracts but cannot be confirmed until the financial situation improves. The greatest progress has been made at Ravele, where members of the community have been appointed to oversee all aspect of operations in the fields, the pack-houses and the office, under the supervision of the general manager, and are receiving ongoing training and

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77. So-called after the government’s Reconstruction and Development Programme.

Photo: ©Edward Lahiff



**A worker packing bananas at Levubu.**

mentoring both on and off the farms. A certain amount of training has also been provided to the wider community membership and particularly to the CPA committees, either by the strategic partners themselves, as in the case of computer training provided to school leavers by Dinaledi, and training in book-keeping provided by GFC. Also at Moletele, both the Business Trust-MABEDI and the European Union-funded Limpopo Local Economic Development programme, working through the University of Pretoria, have provided capacity building and training to the CPA committee members and their representatives on the various boards of directors.

A potential avenue for acquisition of skills that has not been widely used to date in either of the cases is the creation of opportunities for members of the community to develop production, processing or marketing operations on their own account. This has happened by default at Shigalo and Ratombo farms in Levubu where, following the withdrawal of strategic partners, community members have been left trying to manage operations on their own. This, however, is under extremely adverse conditions, and it is questionable how beneficial this experience of crisis management might be in the longer term. A group of seven women from the Moletele community have, however, secured 2ha of shade-netting for vegetable production. At least part of the reason for the failure to allocate individual plots may be the often-stated desire to maintain already-fragile cohesion within the large communities involved, which might be undermined by the perception that a privileged few were gaining special advantages. It could also be seen as undermining the territorial integrity of the farms in question, the preservation of which (and hostility to subdivision) has been an article of faith for all the leading actors to date.

## 5.4 Upstream and downstream activities

Virtually all the activity by communities discussed here has focused on production of primary commodities, with little or no emphasis on upstream or downstream processes. Production alone has proved to be very challenging, however, due to a range of factors discussed in detail in the case studies, including the poor condition of many of the farms at the time of handover, long delays in accessing working capital and the shifting levels of engagement by successive strategic partners, to name but a few.

A focus on primary production is, however, appropriate for a number of reasons. The crops produced at Levubu and Moletele are mostly high-value horticultural commodities such as oranges, mangos, bananas, avocados and macadamias. Although these crops require relatively high levels of inputs and technical expertise, their potential to generate a sizable cash income (suitable for distribution to large numbers of non-participating community members) is undoubtedly high. In addition, production is labour intensive, both in the field and in the pack-houses, and is therefore suitable for employing sizable numbers of community members, many of whom are currently unemployed. Furthermore, as shown at Ravele, such crops require considerable technical and supervisory expertise at a management level, thereby creating potential for graduated training programmes that could, over time, nurture a class of professional farm managers drawn from the communities. Finally, the favourable climatic location and high levels of historical investment in these farms, especially in terms of irrigation, gives them a strong comparative advantage over other areas, all of which makes a compelling argument for a focus on primary production.

Restitution claimants at Levubu and Moletele can benefit from well-developed and competitive markets for upstream and downstream goods and services. While some of the established producers in both areas have, over time, invested agricultural profits in processing facilities and marketing companies, this is not general across the sector, with many successful producers relying on the market for ancillary services. Nearly all of the farms visited have functioning packing plants on site for the high-volume commodities such as citrus and bananas. Given the technical and financial challenges already faced by communities in maintaining production alone, it would seem unwise and unnecessary for them to diversify into value-added processes at this time.

## 5.5 Role of the Communal Property Associations

As noted above, virtually all the communities at Levubu and Moletele – with the exception of Tshakhuma – have organised themselves as Communal Property Associations (CPAs), a legal format specifically designed to allow communities to hold land collectively, in freehold, under the land reform programme. The communities discussed here, including their leaders, had a very limited grasp of how

CPAs were intended to operate, and no reference was made at any time to a written constitution, the foundational document of any CPA. At most, the CPA can be said to be the registered owner of the land and a leadership structure, with little of the dynamism or internal democracy envisaged in the legislation. This lack of appreciation of the distinct nature of the CPA model at the community level is reflected at the provincial and national levels, where none of the administrative and legal support promised by the state at the time of the passing of the legislation has materialised.

The limited function of the CPAs is most evident in their lack of regular meetings and particularly in their lack of leadership elections. With few exceptions, the current leadership of the CPAs – that is, the executive committees and particularly the powerful chairpersons – have remained unchanged since the time of lodgement of the claims and before the lands were restored to the communities. While some communities hold annual gatherings, these appeared to be more in the nature of ‘report back meetings’ rather than formal Annual General Meetings (as required by the CPA constitutions and legislation), and generally do not serve as decision-making occasions. Elections for most of the committees are now due, if not over-due, but there appeared to be little appetite for them. Indeed, at Moletele, there was distinct unease about the prospect of an election, seemingly based not on a desire by existing office holders to cling to power but rather a fear that the elections would be divisive for the community and that a new committee might undo much of what has been achieved.<sup>78</sup>

Despite this democratic deficit, CPAs, or at least their executive committees, continue to function to varying degrees. CPA committee members have engaged in all aspects of negotiations and operations with state institutions such as the office of the Regional Land Claims Commissioner and the provincial Department of Agriculture and, of course, with the various strategic partners. How effective they were in the latter is an open question, given the failure of many of these ventures, with frequent comments made at both Levubu and Moletele to the effect that the CPA representatives did not fully understand what was happening within the commercial operations or, alternatively, were not given the information they needed in order to fully participate.

This points to another tension within communities: between the CPAs (or their executive committees) and their representatives – generally four or five – on the boards of directors of the joint venture companies. Once the initial agreements were made to form joint ventures, the centre of power was effectively transferred to the boards of directors where, by all accounts, CPA representatives relied heavily on the commercial partners for guidance. CPA leaders and ordinary members at Levubu and Moletele complained about not being kept informed of proceedings within the co-owned commercial operations, but this reflects the marginalisation of community representatives themselves within these structures. The fact that the representatives

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78. Interview with MCPA members, 12th August 2010.



of the provincial Department of Agriculture also appear to have been overwhelmed by the complexity of the commercial operations, especially at Levubu, as evidenced by their apparent failure to grasp the dire financial problems that arose, or to intervene appropriately, only shows the difficulties encountered by non-specialised directors faced with complex financial transactions.

Another weakness in the CPA model is evidenced in the ongoing uncertainty around membership. In all the communities consulted, criteria for membership of the CPA have been hotly debated, and membership lists have gone through multiple versions. At Levubu, communities have applied the category of 'member' to denote direct (adult) descendants of people who were members of the community at the time of dispossession. The additional category of 'beneficiary' is used to denote adult relatives and dependents of the members. The lists of members and beneficiaries at Levubu now appear to be fixed and widely agreed. It should be noted, however, that the law does not provide any detailed guidance on the matter of membership (or beneficiaries) – rather, the community as a whole is deemed to be the legal heir of the community that suffered dispossession, and a community may determine who its current members are, regardless of direct links to individuals who were dispossessed. At Moletete, where the potential pool of members and beneficiaries is vast compared to any of the Levubu communities, no agreement has yet been reached as to a membership list or, it appears, a clear definition of members or beneficiaries.

Although inherently a difficult task given the size of the community and its multiple internal divisions, the lack of finality can be seen to reflect a lack of clarity around the precise entitlements and obligations of members, particularly in the absence of distribution of material benefits. Developing clear criteria for CPA membership, confirming membership and building capacity among members to participate in all aspects of CPA activity are areas where support from the Department of Rural Development and Land Reform – the relevant state agency – would be most useful, but has not been forthcoming to date. If and when CPAs get around to distribution of benefits, clear and agreed membership lists and robust internal processes will be of critical importance in terms of democracy, transparency and accountability.

The development of CPAs as independent, representative and effective structures is closely related to, and potentially compromised by, their relations with the tribal (or traditional) authorities in their areas. All of the land claimants at Levubu and Moletete are constituted as historical, tribal communities. The official requirement that land be restored to specially created (and supposedly democratic) structures is an attempt to side-step existing tribal institutions, but has resulted in a variety of often-uneasy relationships between the two. None of the CPA chairpersons (all men) were closely associated with the tribal authorities, but all the CPA committees included members of the tribal authorities in an *ex-officio* (i.e. unelected) capacity. In two of the communities at Levubu, informants described the CPA committees as dominated by the tribal leaders, but at Ravele there was widespread agreement that the relationship with the tribal leadership, although close, was a harmonious one.

At Moletele, the presence of the chief's brother on the CPA executive committee was reported as essential in maintaining communications and trust between the two institutions. In the absence of regular elections or other manifestations of the democratic process, however, it is difficult to say how independent any of the CPAs are from established elites and power structures within their respective communities, and what the implications of this might be.

Many of the CPAs consulted have very limited capacity for effective management of their own finances and general operations, in terms of skilled bookkeepers and the like. Some rely heavily on the commercial partners in this regard. At Ravele, however, one member of the executive committee works full-time on behalf of the CPA; he has received extensive business training and liaises closely with the general manager of the farming operations. At Moletele, in addition to a full-time employee of their own (also a member of the executive committee), the CPA benefits from the services of a full-time advisor, funded through the Business Trust-MABEDI. While those communities with functioning business ventures were generally producing regular financial and other reports on the farming operations, Moletele was the only CPA producing regular accounts for the CPA itself, including details of income (from various sources), expenditure, assets and liabilities. In part, this has been forced on Moletele by its (unique) involvement in four distinct business ventures, as well as a number of lesser commercial arrangements, therefore making it inappropriate for it to align its affairs too closely with any one partner. Nonetheless, the professionalism of the Moletele CPA stands out, in terms of its business procedures, its reporting structures and its dealings with multiple business partners.

## **5.6 Workers' participation and employment on the farms**

A key promise of land reform was the prospect of employment for community members on the farms. This is particularly important in the context of the political pressure to maintain the integrity of the existing farm units that amount to an effective ban on subdivision of the land or residential settlements, either of which might spread the benefits of restitution more widely.

Despite the existence of a legal minimum wage, and legislation protecting the rights of workers, farm work is generally considered to be amongst the lowest paid and unattractive type of work in South Africa, especially for those with some education. While community leaders view farm employment as one of the benefits of restitution, they (and their commercial partners) are constrained by the financial pressures on the companies, and competition within the sector, in terms of both the volume and the quality of employment they can provide. Community leaders also highlighted the pitfalls of employing community members, who might (correctly) view themselves as co-owners of the land; as a result, many people from outside the claimant community continue to be employed, thereby limiting potential benefits to the claimant community. At Moletele, community members had a strong preference for indoor work, in the pack-houses, over field work, although both paid the same rate.

A feature of the original proposal for strategic partnerships, as promoted by the state agencies around the time of land transfer, was the intention to reserve a minority shareholding in any new ventures specifically for farm workers. While figures of 5-10% were mentioned in discussions at this time, the figure that featured in most strategic partnership agreements was just 2%. In this, both CPA leaders and commercial partners appear to have been in broad agreement on the need to keep workers' participation to a minimum.

It is important to note that the original proposals for workers' participation referred to the existing labour force, and was thus a well-meaning attempt to safeguard the position of existing workers during the transition to new ownership, especially as many of them were not members of the claimant communities. The vehicle for achieving workers' participation was to be a specially created workers' trust, which would hold shares on behalf of the workers on each farm. A major flaw in the restitution process was that no agency was given responsibility for the establishment of such a trust, and workers themselves were generally not represented in negotiations around the settlement of claims on the farms where they worked. As a result, no workers' trusts have been established on any of the farms at Levubu or Moletele, and the issue of workers' participation appears to have disappeared from the policy agenda.

Farm workers were particularly vulnerable during the transition process when responsibility for the farms in general, and for wage bills in particular, was often unclear or contested. While informants at Moletele insisted that most (if not all) of the original workforce on the farms was retained throughout the transition process, there was certainly evidence at Levubu that many workers went for long periods without payment and some were, as a result, forced to abandon the farms without receiving any of their statutory entitlements. No evidence could be found of workers being forced out once farming operations had been re-established under community (or joint) control. At both Ravele and Moletele, the policy now is to retain existing workers but to give preference to community members in all new recruitment.

Although no reliable figures could be found, anecdotal evidence suggests that employment levels on virtually all the farms is down from what it was under the previous owners, and in some cases considerably so. Many workers have faced recurring non-payment of wages and there would appear to have been a considerable shift from permanent to seasonal contracts, implying a diminution of overall benefits. Apart from some training opportunities, and perhaps a somewhat more humane labour regime, no evidence could be found of significant improvements in the general wages and conditions on the community-owned farms.

Overall, employment opportunities have not provided much net benefit to CPA members, while falls in overall employment (if only temporary as part of the transition process) are likely to have impacted negatively on income accruing to the wider local communities.

## 6. Conclusion and recommendations

This report has examined experience with joint ventures between companies and communities in South Africa's agricultural sector, focusing on two case studies. This experience arose in the context of South Africa's land reform programme. It shows how dispossessed communities, whose experience of agriculture was largely limited to small-scale farming in communal areas and employment on white-owned commercial farms, have found themselves in charge of highly-developed and complex farming operations. In an effort to preserve productivity, and provide sustainable benefits to community members, the state has promoted a model of strategic partnership between communities and commercial operators of various types, mainly involving joint ventures. For a variety of reasons, some to do with inherent weaknesses in the model, and some to do with the behaviour of the key actors, all but one of the first rounds of strategic partnerships collapsed, some with spectacular losses. Benefits to communities to date have been negligible and it would appear that the farms in question have experienced considerable decline in terms of employment, assets, profitability and contribution to the local and national economy. Nonetheless, some communities, with support from a few private-sector operators, are in the process of restoring productivity on the farms and developing alternative business models that can replace the now-discredited strategic partnerships.

Strategic partnerships in the form of joint ventures were an ambitious experiment in including communities in all aspects of agricultural enterprises. Among the key weaknesses in this model identified in this study are: vast difference (in knowledge and experience) between communities and their commercial partners; lack of agreement around precise responsibilities of the commercial partners, particularly with respect to provision of working capital; long delays on the part of the state in transferring the land and releasing grant funding; and a failure, particularly on the part of the provincial Department of Agriculture, to monitor and regulate the contractual agreements between the parties.

The first round of joint ventures were largely about horizontal integration within the agricultural sector, as existing farming operations were merged into larger units, which remained focused on production of primary commodities. For some of the initial strategic partners, this meant a significant increase in scale of operations. Subsequent events at Levubu, in particular, reinforced this tendency, as partners with links to downstream processing and marketing operations withdrew from the area. The recent introduction of larger, corporate partners at Moletele, however, signals a shift towards greater vertical integration, as the expanded farming units are linked into companies with extensive downstream interests in agricultural processing and marketing. What this means in terms of benefits (or risks) for the community, or for the sustainability of partnerships at Moletele, remains to be seen, and should be the focus of future research.

There can be little doubt that the prospects of large operating profits, management fees and government grants were important in attracting commercial partners to these ventures. Whether this was matched by a sense of social responsibility is difficult to say. Many of the partners are too small to realistically include social responsibility as part of their mission. Some of the larger ones, including Umlimi, Boyes, GFC and Bono-SAFE, align themselves to some degree with the broad national programme of BEE. But overall, it is too early to say whether the current corporate partners at Levubu and Moletetele have embraced an 'inclusive' business model or are operating along more traditional profit-seeking lines.

For community members, the joy of regaining their ancestral lands has been tempered by difficult negotiations around commercial operations, financial setbacks and a general failure of benefits to materialise. A policy of preserving the structure of the commercial farms, and even consolidating them in many cases, was premised on maximising the financial returns to community members although, as experience has shown, it also exposed them to unacceptable levels of risk. While community members have shown great patience, even passivity, to date, there is likely to be ongoing pressure for more direct access to the fruits of restitution, including the right to live on the farms and use the land for small-scale, household-level, production. This tension between centralised, high-value agriculture, with indirect (or much delayed) benefits, versus disaggregated, low-value agriculture and resource extraction with short-term benefits is set to persist, and it is likely that a balance between the two will have to be found in any future ventures.

Although largely neglected to date, the internal coherence and procedures of community groups (e.g. Communal Property Associations) will require attention from policy makers at some point. Both large and small communities are in need of external assistance in understanding the function of a CPA, building capacity among members and leaders, and supporting a democratic culture. Despite efforts by at least one non-governmental association, and private-sector bodies such as the Business Trust, most communities are still in need of professional legal, financial and management services, with regard to their business ventures and how they organise their internal affairs.

The role of state agencies such as the provincial Department of Agriculture and the Commission on Restitution of Land Rights has been critical throughout the restitution process, in terms of restoring the land, promoting the strategic partnership model and, most problematically, in the provision of grants. By mid-2010, most support to land reform projects had dried up as the Department of Rural Development and Land Reform was facing a severe budgetary crisis; as a result, the prospects for further land transfers or grant support is unpromising for the foreseeable future. Nonetheless, there is still a vital role for the state to play in terms of safeguarding the assets of communities, monitoring compliance with contractual agreements and exploring new, more flexible options for land use.

The consequences for the state, and for the wider society, of the failure of large restitution projects such as Levubu and Moletele are undoubtedly great. The vast expenditures already incurred, with few tangible benefits to show for it, adds to the already vociferous criticisms of the policy of transferring valuable assets to poor communities. This provides ammunition to the critics of land reform and the wider redistributive policies of the state, and creates opportunities for opportunistic interventions from across the political spectrum. The slow pace and questionable benefits of land reform to date have added to calls for more interventionist strategies, particularly the expropriation of white-owned lands without compensation, although as this and other studies show, the problem is not just the acquisition of land but what happens to it subsequently. Pro-business groups have also been vocal in calling for redistribution programmes to focus more on better-off individuals who have the means to use assets productively, thereby potentially reducing the rights basis of restitution and the inclusion of relatively poor households.

Despite these many problems, there are signs of positive developments on some of the farms at Levubu and Moletele. These all involve a retreat from the complexity of joint ventures and efforts to reduce the risks to communities. The downside of this may be some lost opportunities in terms of management training and sharing of profits, which have been largely ephemeral to date, in favour of a more reliable income stream. The so-called community-private partnerships emerging at Moletele are effectively long-term lease agreements, with some additional social benefits. Partners such as GFC and Bono-SAFE, with extensive interests in closely allied sectors, would appear to offer reliable partnerships, although monitoring of compliance with contracts will remain a concern. Largely unaddressed under this newer models is the question of long-term development of the farming assets, particularly in areas such as replanting of orchards, and there remains the risk that lease agreements could lead to the erosion of asset values over time.

Another emerging model is that of partnership with individual entrepreneurs, as is the case at New Dawn and Ravele. This approach relies on the continued involvement of the communities in operating the farms and on the good will of key individuals. These farms enjoy a relatively good income stream from crops such as bananas, citrus and macadamias and, with careful management and cost control, seem capable of generating a modest operating profit. Whether this will translate into a dividend for community members, especially in the absence of alternative sources of investment capital, remains to be seen.

Most vulnerable of all at this time are those communities, such as Ratombo, without any partnerships. A few individuals have managed to maintain production at a very basic level, through harvesting standing crops, but, in the absence of investment capital this cannot be sustained. And while decentralised production by individuals and small groups would appear to be a rational response to the collapse of centralised management, this is adding to tensions within the community, and may not be appropriate where infrastructure is shared across large units. For all the communities without a lease agreement, access to capital stands out as a top

priority and, given the bruising experience of many at the hands of commercial banks, there would appear to be an urgent need for involvement by agencies such as the Industrial Development Corporation and the Development Bank of Southern Africa.

Overall, these studies reveal that the business models promoted as part of land reform in South Africa have not yet succeeded in producing sustainable enterprises or distributing benefits to community members. Now that communities are secure in the ownership of their land, renewed efforts are required from the state, private sector, non-profit organisations and community members alike to identify land-use models more suited to low-income communities, that can deliver sustainable benefits in terms of employment, housing, land for own use and cash income.

From an international perspective, the lessons of strategic partnerships within South Africa's land reform programme appear to be largely negative. Not enough material progress has been made in any of the cases outlined here to conclude that this type of strategic partnership is financially viable or can deliver sustainable benefits to communities over time. Despite a promising start – including freehold land title vested in communities, favourable conditions for production of high-value agricultural commodities and generous state support – it is clear that some fundamental errors have been made in the design and implementation of these ventures. On the community side, the precise role of ordinary members has never been clarified: no opportunities have been provided for small-scale farmers; on-farm employment has not materialised for the majority (and is unlikely to do so under even the most optimistic scenarios); and, to date, no share of profits has been forthcoming. Thus, unlike other international examples, most members have not been included in these ventures as either workers or independent producers, making them little more than passive shareholders in what are up to now poorly-performing companies. On the strategic partner side, no firm commitments have been made regarding investment of capital or sharing of risk and little thought appears to have been given to the specific challenges of working in partnership with large and generally poor communities who expect tangible benefits from their land claim in the short term. The fact that many of the original strategic partners were companies specially created for the purpose of participating in these ventures – with no experience of inclusive approaches to business – clearly contributed to this general weakness. On the part of the state, the detailed workings of the strategic model which it has promoted were clearly not thought through prior to transferring control of the farms – and vast public resources – to private-sector operators, in the absence of any effective guarantees as to how these would be used. In short, neither the commercial nor the social responsibility dimensions of these ventures have been adequately defined in advance, and have proven virtually impossible to establish in practice.



Arising from this study, the following recommendations are offered to the various parties involved:

- Communities reclaiming their land should be encouraged to become directly involved in its use through a range of activities that include opportunities for small-scale production and commercial partnerships, thereby ensuring a flow of benefits in the short and longer terms.
- Communal Property Associations and Trusts should be provided with legal and administrative support to manage their affairs – including commercial agreements and distribution of benefits – and to promote democratic participation by their members.
- Prospective strategic partners should be required to provide, in advance of any agreement, detailed financial and business plans, a programme for inclusion of community members, and firm guarantees as to the availability of investment capital, and willingness to invest.
- All-embracing strategic partnerships should be avoided, and replaced with more specific agreements such as farm leases (e.g. for a period of five years), management contracts, or contracts to purchase produce from community-run farms.
- Specialist agencies such as the Industrial Development Corporation and the Development Bank of Southern Africa should be given greater responsibility for managing state grants on behalf of communities, provision of credit, and general commercial advice.
- State agencies such as provincial departments of agriculture and the national Department of Rural Development and Land Reform should develop a clear strategy for supporting community-run commercial farms.
- Where possible, attention should be given to breaking up existing commercial farms into smaller units of production, rather than consolidating them as is currently happening.
- Emerging international experience in inclusive business models in agriculture should be drawn upon in designing new land-use models for land claiming communities in South Africa.
- Ongoing monitoring and evaluation of land reform projects should be carried out by a range of agencies in order to highlight problems and propose alternative approaches.

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## **Joint ventures in agriculture: Lessons from land reform projects in South Africa**

'Inclusive business models' have attracted renewed interest in recent years, as part of wider debates about growing agricultural investment in developing countries.

This report discusses joint ventures in South Africa's agricultural sector. The South African experience features major specificities linked to the country's history and recent land reform programme. Land reform beneficiaries entered into a range of joint ventures with commercial partners.

The report provides a cautionary tale for international debates about inclusive business models, while also identifying more promising models that are now starting to emerge.

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